

Best Practices for Using Award Fees

**U.S. Army Aviation and
Missile Command;
Office of the Program Executive
Officer, Tactical Missiles; and
Office of the Program Executive
Officer, Air and Missile Defense**

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This is the report on our audit of best practices for using award fees at U.S. Army Aviation and Missile Command; the Office of the Program Executive Officer, Tactical Missiles; and the Office of the Program Executive Officer, Air and Missile Defense.

The command-reply process that Army Regulation 36-2 prescribes will establish the Army's official position on the conclusions, recommendations, and command comments.

The report addresses recommendations in Objective A and B to the Assistant Secretary of the Army (Acquisition, Logistics and Technology). It also addresses recommendations in Objective A to the Commander, U.S. Army Aviation and Missile Command; Deputy for Systems Acquisition, U.S. Army Aviation and Missile Command; the Program Executive Officer, Tactical Missiles; and the Program Executive Officer, Air and Missile Defense.

I appreciate the courtesies and cooperation extended to us during the audit.

FOR THE AUDITOR GENERAL:

A handwritten signature in cursive script, reading "Thomas Druzgal", is positioned above the printed name.

THOMAS DRUZGAL
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For extra copies of this report, please call (703) 681-9863. For more information about this audit, please call the Acquisition, Research and Development Division at (703) 681-9593.

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INTRODUCTION

PREFACE

Award fees can serve as a valuable tool to help control program risk and encourage excellence in contract performance. To reap the advantages that cost-plus-award-fee contracts offer, government personnel must implement an effective award fee process. Missteps in any part of the process can incentivize the wrong actions--or even disincentivize contractors to achieve the desired results.

We initiated this audit in response to DOD concerns over whether award fees were being used effectively to encourage contractor excellence. On 27 February 1999, the Under Secretary of Defense (Acquisition and Technology) issued a memorandum to the Service Secretaries, expressing concern that government personnel were granting high award fees that weren't commensurate with actual contractor performance.

In fall 1999, the Deputy Assistant Secretary of the Army (Procurement) issued a memorandum to the Army's contracting and acquisition communities, reiterating many of the same concerns that the Under Secretary of Defense (Acquisition and Technology) had cited. In a separate action, the Deputy Assistant Secretary issued a list of primary areas of interest that Army procurement offices should emphasize during FY 00. It included using award fees properly to provide motivation for excellence in contractor performance.

Implementing an effective award fee process requires careful attention to:

- Designing award fee plans that identify the most important elements of performance and the levels of achievement that contractors must reach to get some or all of the award fee.
- Evaluating contractor performance according to the plan.
- Determining and paying award fees based on the plan.

Our audit focused on these aspects of the process.

WHAT WE AUDITED

We audited award fee processes related to the six cost-plus-award-fee contracts that U.S. Army Aviation and Missile Command's Acquisition Center issued in FY 98 and FY 99.

The audit answered these questions:

- Did Aviation and Missile Command, the Office of the Program Executive Officer for Tactical Missiles, and the Office of the Program Executive Officer for Air and Missile Defense use award fees effectively to help manage risk and encourage excellence in contractor performance?
- Did Army regulations that prescribe policies for using award fees identify key management controls?

We surveyed mandatory (Federal, DOD, Army, and local) guidance to identify practices that we considered most beneficial in helping ensure effective use of award fees. We also surveyed guidance from several other governmental organizations. In this report, we identify these best practices.

RESULTS IN BRIEF

Aviation and Missile Command and the Program Executive Officers needed to use award fees more effectively to help manage risk and encourage excellence in contractor performance. We reviewed award fee processes related to the six cost-plus-award-fee contracts that Aviation and Missile Command's Acquisition Center awarded in FY 98 and FY 99. We found weaknesses in developing award fee plans, evaluating contractor performance, and determining and paying award fees. (Annex C contains a summary of problems and opportunities to employ best practices.)

Requiring activities needed to do a better job of developing award fee plans. They sometimes didn't clearly identify criteria for award fee evaluations. Also, they didn't use program risk as a primary basis for developing criteria, and some criteria weren't appropriate for the established award fee periods. Furthermore, award fee payment structures didn't encourage contractors to excel.

Improvements were needed in evaluating contractor performance. Performance evaluators didn't receive written appointments or adequate training to perform their duties. Evaluation documents were often general, with few specific examples of good or bad contractor performance.

Improvements were also needed in processes for determining and paying award fees. Award fee payments were generally timely. However, we found:

- The award fee decision-making processes for one contract inappropriately included contractor personnel.
- Award fee evaluation boards and determining officials sometimes didn't adequately document their decisions or clearly explain the rationale for ratings and award fee amounts.
- Government personnel inappropriately rolled over unearned award fees for one contract into subsequent award fee periods.

Weaknesses generally existed because command personnel didn't have detailed guidance on how to structure award fee plans to help manage risk and incentivize contractors. Also, they didn't place sufficient emphasis on managing critical aspects of the award fee process. In addition, oversight responsibility wasn't clearly assigned for making sure the overall award fee process worked effectively. As a result, there wasn't reasonable assurance that contractors received award fees commensurate with actual performance or that they were motivated to strive for excellence.

Army regulations didn't identify key management controls related to the award fee process. The Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) developed a checklist (Appendix DD) for the Army Supplement to the Federal Acquisition Regulation. However, the checklist didn't address key controls related to many of the problems that we identified. As a result, there was little assurance that commands would effectively use award fees to manage risk and encourage excellence in contractor performance.

OTHER MATTERS

When we initiated our audit, there were seven contracts within the scope of our review. However, on 9 March 2000, the contracting officer for one of the contracts--Contract DAAH01-99-C0081--issued a modification converting the contract type from cost plus award fee to cost plus fixed fee.

Contracting personnel told us that they changed the contract type because they had awarded the contract to buy labor hours only, but other requirements--material and travel--also needed to be included.

The requiring element was issuing task orders that required substantial material and travel. In addition, we had identified significant problems with the draft award fee plan. Considering the types of effort being procured, cost uncertainties, and problems with the draft award fee plan, contracting personnel decided to use a cost-plus-fixed-fee contract type.

Because of their decision, we eliminated the contract from the scope of our review. We didn't evaluate the appropriateness of changing to a cost-plus-fixed-fee contract because our audit didn't include evaluation of contract type. However, we were concerned because, under a cost-plus-fixed-fee contract type, the government bears all cost risk. Also, it appeared that the contractor was having problems completing some tasks timely.

On 3 April 2000, the contracting officer told us that further review indicated that the cost-plus-fixed-fee contract was still not the optimal contracting arrangement. The contracting officer planned to replace the contract with a basic ordering agreement.

We believe that this contracting effort--valued at about \$34 million--warrants closer scrutiny by the Deputy for Systems Acquisition, Aviation and Missile Command to make sure contracting decisions are in the government's best interest.

RESPONSIBILITIES

The Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) is responsible for Army procurement and contracting functions. It is also the Army's functional proponent responsible for identifying key management controls related to Army contracting operations, including the award fee process.

Aviation and Missile Command--through its Acquisition Center--is responsible for soliciting, awarding, and administering contracts for the elements that it supports, including the Deputy for Systems Acquisition; the Program Executive Officer, Tactical Missiles; and the Program Executive Officer, Air and Missile Defense. Aviation and Missile Command is a major subordinate command of U.S. Army Materiel Command.

The Deputy for Systems Acquisition and Program Executive Officers--through their project offices--are responsible for developing award fee plans and providing performance evaluators.

- The Deputy for Systems Acquisition is responsible for the Short Range Air Defense Project Office (including the Sentinel).
- The Program Executive Officer, Tactical Missiles is responsible for the:
 - Javelin Project Office.
 - Multiple Launch Rocket System Project Office.
 - Aviation, Rockets, and Missiles Project Office (formerly the Air-to-Ground Missile Systems Project Office).
- The Program Executive Officer, Air and Missile Defense is responsible for the Lower Tier Project Office (formerly the Patriot Project Office).

The Assistant Secretary of the Army (Acquisition, Logistics and Technology) is responsible for making sure the Program Executive Officers act on the recommendations addressed to them in this report. Army Materiel Command is responsible for making sure Aviation and Missile Command and the Office of the Deputy for Systems Acquisition act on the recommendations addressed to them in this report.

* * *

If the Office of the Assistant Secretary; Aviation and Missile Command; and the Offices of the Deputy for Systems Acquisition and the Program Executive Officers carry out the recommendations in this report, there could be monetary benefits. However, at the time of the audit, we couldn't reasonably estimate those benefits.

OBJECTIVES, CONCLUSIONS, RECOMMENDATIONS, AND COMMENTS

A – USE OF AWARD FEES

OBJECTIVE

Did U.S. Army Aviation and Missile Command; the Office of the Program Executive Officer, Tactical Missiles; and the Office of the Program Executive Officer, Air and Missile Defense use award fees effectively to manage risk and encourage excellence in contractor performance?

CONCLUSION

Aviation and Missile Command and the Program Executive Officers needed to use award fees more effectively to help manage risk and encourage contractor excellence. We found improvements were needed in developing award fee plans, evaluating contractor performance, and determining and paying award fees. Weaknesses generally existed because command personnel didn't have detailed guidance on how to structure award fee plans to help manage risk and incentivize contractors, and they didn't place sufficient emphasis on managing critical aspects of the award fee process. As a result, there wasn't reasonable assurance that contractors received award fees commensurate with actual performance or that they were motivated to strive for excellence. Improvements could result from implementing best practices that we identify in this report.

Our detailed discussion of these conditions starts on page 14. Our recommendations start on page 32.

BACKGROUND

A cost-plus-award-fee contract is a cost-reimbursement contract that provides financial incentives based on a contractor's performance. Specifically, this type of contract allows the government to evaluate a contractor's performance according to specified criteria and grant an award amount that is within designated parameters.

Guidance

The Federal Acquisition Regulation and its supplements contain guidance for using award fees. According to the Federal Acquisition Regulation, a cost-plus-award-fee contract is suitable when:

- It's not possible to set predetermined objective incentive targets applicable to cost, technical performance, or schedule.
- Using a contract that effectively motivates the contractor toward exceptional performance will increase the likelihood of meeting acquisition objectives.
- The expected benefits justify the additional administrative effort and cost required to monitor and evaluate performance.

Aviation and Missile Command's Acquisition Desk Guide contains local implementing guidance. It describes the award fee evaluation concept, contractual provisions for award fees, and responsibilities of monitors, contracting officers, award fee evaluation boards, and Award Fee Determining Officials.

Process

The flowchart at Annex D shows the award fee process, as described in Aviation and Missile Command's guidance.

DISCUSSION

Our audit included the six cost-plus-award-fee contracts that Aviation and Missile Command's Acquisition Center awarded in FY 98 and FY 99. These contracts--four for engineering services and two for research and development--were valued at about \$821 million. (Annex E contains additional details concerning the contracts.) As of 15 March 2000, command had paid about \$6.7 million in award fees. These awards represented between 83 and 99 percent of available award fees.

During our audit, we identified best practices--practices that we considered beneficial in helping ensure effective use of award fees. In part, we derived these best practices from guidance that we thought was particularly beneficial. In addition to reviewing local and higher level mandatory guidance, we reviewed guidance from the U.S. Air Force, National Aeronautics and Space Administration, and U.S. Army Space and Missile

Defense Command. (Our audit didn't assess how well those organizations applied the guidance.)

For discussion in this report, we divided the award fee process into three parts. We highlighted best practices and results of our review of the command's cost-plus-award-fee contracts. We then address oversight of the process. This section discusses these four areas:

- Developing the award fee plan.
- Evaluating performance.
- Determining and paying award fees.
- Managing the award fee process.

Developing the Award Fee Plan

Requiring activities needed to do a better job of developing award fee plans. Prepared during the first part of the award fee process, the award fee plan is critical because it provides government and contractor personnel with a common understanding of how the award fee process will work. It also serves as the basis for evaluating contractor performance. Elements of the plan that are especially important are:

- Evaluation criteria that the government will use to assess the contractor's performance.
- The award fee payment structure, which explains how much of the available award fee the contractor can receive for various levels of performance.

Evaluation Criteria

Identifying Criteria

Best Practice: The award fee plan should clearly identify criteria for evaluation. The criteria should focus on the most important aspects of the program or function.

Of the six contracts that we reviewed, two clearly identified criteria and four needed to improve criteria.

Two contracts did contain specific evaluation criteria that we thought were (for the most part) good examples:

- Contract DAAH01-99-C-0085 (Contract 0085 - Sentinel Services) identified specific criteria for each adjectival rating. For example, the criterion to receive an excellent rating for On-Time Task Completion required the contractor to consistently exceed contract schedule requirements by providing a high-quality product before it was contractually required.
- Contract DAAH01-98-C-0213 (Contract 0213 - Sentinel Research and Development) quantified results that the contractor must achieve for each adjectival rating associated with many criteria. For example, the contractor would receive an "Excellent" rating if the average unit production cost was \$250,000 or a "Very Good" rating if the cost was \$267,000.

For four of the contracts, criteria needed improvement:

- The award fee plan for Contract DAAH01-99-C-0083 (Contract 0083 - Hellfire) identified generic criteria for each adjectival rating (ranging from "Sub-Marginal" to "Excellent"), but many of the criteria were vague. And some criteria that were specific had limited applicability. For example, some criteria measured the contractor's success in getting configuration control board actions approved without revisions (for example, 85 percent success for a "Good" rating). However, the criteria applied only to the 2 engineering services memorandums that related to Configuration Management--not to the other 12 engineering services memorandums.
- The award fee plan for Contract DAAH01-98-C-0033 (Contract 0033 - Guided Multiple Launch Rocket System (GMLRS)) contained two weighted criteria--Program Management (40 percent) and Technical Performance and Affordability (60 percent). However, the criteria weren't clearly defined and they overlapped. Five of six integrated process teams applied the criteria to evaluation areas that encompassed most tasks in the performance work statement. For example, the Contracts and Finance team applied the criteria to these evaluation areas: Average Unit Procurement Cost, Schedules, Vouchers, Deliverables, Cost Performance, and Communication. The result was a complicated maze of evaluations, and monitors didn't know what aspects of performance the requiring activity was trying to emphasize for the award fee process.

- The award fee plan for DAAH01-98-C-0126 (Contract 0126 - Javelin) didn't contain detailed evaluation criteria. At the contractor's request, the project office developed specific criteria-like guidelines for one rating period.
- The award fee plan for DAAH01-99-C-0028 (Contract 0028 - Patriot) identified three broad categories for evaluation: (i) Technical Performance (including Evaluation, Analysis, Testing, and Solution of Problems), (ii) Reporting, and (iii) Resource Management. However, it didn't identify specific criteria for evaluating those categories of performance.

The quality of criteria for these contracts varied because personnel from the requiring activities had differing ideas of what kind of criteria they should develop. Personnel from one requiring activity thought they should have broad criteria that they could use to evaluate all aspects of the contractor's performance. Some personnel told us they didn't develop specific criteria because award fee decisions were supposed to be subjective, and their experienced performance evaluators didn't need detailed criteria. Some didn't develop specific criteria because they didn't think local guidance required it. Also, even though the DOD Supplement to the Federal Acquisition Regulation contains a detailed example, some requiring activities didn't use the guidance. (We include the example from the DOD Supplement in Annex F.)

In our survey of best practices, we noted that guidance from the Air Force, National Aeronautics and Space Administration, and Space and Missile Defense Command emphasized these points:

- The award fee plan should convey which performance evaluation areas are most critical to program success, and evaluation criteria should address those areas.
- The existence of too many criteria dilutes emphasis.
- If criteria are too broad, monitors may have difficulty providing meaningful comments and evaluations.

Requiring activities need to clearly identify evaluation criteria so there will be a defined basis for assessing performance. Otherwise, contractors may not understand which aspects of performance the government considers most important, and evaluators won't know which aspects of contractor performance they should be assessing.

Addressing Program Risks

Best Practice: Award fee criteria should address program risks (elements critical to successful execution of the program or function).

Requiring activity personnel needed to use program risk more effectively as a primary basis for developing evaluation criteria.

Generally, risks in weapon system programs relate to cost, schedule, and performance (technical achievement). The level of risk related to cost, schedule, and performance depends on program circumstances and the contractors involved. Cost risk is particularly significant on cost-type contracts because the government must pay all allowable and allocable costs that the contractor claims.

Although most of the contracts we reviewed included some criteria that addressed elements of cost, schedule, and performance, personnel told us they didn't think of the award fee process as a tool to manage specific program risks. For one contract (Contract 0085 - Sentinel Services), cost wasn't included as an evaluation criterion for the active portions of the contract (logistics services and interim contractor support and fielding).

DOD's initiative to consider Cost as an Independent Variable recognizes the interactive relationship among cost, schedule, and performance and highlights the need to consider tradeoffs in schedule and performance to control costs. By thoughtfully applying this initiative in developing award fee evaluation criteria, government personnel can guide contractors in prioritizing their efforts related to cost, schedule, and performance.

In our survey of best practices, we noted that guidance from the National Aeronautics and Space Administration requires including criteria related to cost and states that schedule and performance will generally be important, also. In addition, Space and Missile Defense Command requires cost control as an evaluation criterion for all award fee contracts. The guidance points out that using only product or service performance criteria (without cost criteria) increases the risk that contractors will strive for performance achievements without regard for cost.

Requiring activity personnel need to consider program risks in developing evaluation criteria, or they'll miss a valuable opportunity to motivate the contractor to help mitigate significant government risks.

Revising Criteria

Best Practice: Award fee criteria should be appropriate for designated award fee periods. Revising criteria may be necessary if existing criteria are inappropriate or if the government wants to shift performance emphasis.

In our review, we found instances when award fee criteria weren't appropriate for the established award fee periods for five of the six contracts. (The sixth contract didn't have criteria.) For example:

- The evaluation plan for Contract 0213 (Sentinel Research and Development) contained a criterion related to achieving a specific goal for "mean time to repair." However, the performance evaluator couldn't measure the contractor's success in achieving the goal until the product design was complete. (The contract didn't designate a deadline for design completion.) Government personnel should have deferred evaluation of the criterion or formally substituted another criterion until the existing criterion could be evaluated. Instead, the evaluator gave a rating of "Excellent," based on his prediction that the contractor would succeed in achieving the goal. For three award periods, the contractor received excellent ratings and a total award fee of about \$30,000 related to that criterion without actually achieving the goal.
- The first award fee period for Contract 0083 (Hellfire) covered only 49 days. Evaluation criteria were inappropriate because they addressed requirements that the contractor couldn't accomplish during the short time period. Government personnel needed to change the performance period or the criteria, but they didn't want to revise the contract. The contractor received an excellent rating and about \$30,000 in award fee for the period.
- Government personnel developed criteria-like guidelines for Contract 0126 (Javelin) for the first award fee period, at the contractor's request. The guidelines contained task due dates that related only to the first award fee period, so they weren't appropriate for the next award fee period. However, project office personnel didn't make revisions during the following period because they considered the guidelines to be informal standards--not criteria.

Having appropriate evaluation criteria is important because the criteria indicate to the contractor--and the contract monitors--which aspects of contractor performance are most significant during the evaluation period.

Requiring activities need to revise criteria when they are inappropriate for the period being measured or when they want to shift the contractor's focus to other priorities.

The government has the latitude to change performance criteria. On 27 February 1999, the Under Secretary of Defense (Acquisition and Technology) issued a memorandum to the Service Secretaries on using award fees. The memorandum stated that, if rating factors are inappropriate, government personnel should consider changing the factors through contract modifications.

In our survey of best practices, we noted that Air Force guidance allows unilateral changes to the award fee plan if the contracting officer notifies the contractor before the start of an evaluation period. The government and the contractor must agree to changes affecting the current evaluation period.

When criteria are inappropriate, the government can't use award fees to motivate the contractor to achieve desired goals.

We discuss actions needed to make sure award fee criteria are appropriate in Recommendations A-4 and A-9.

Award Fee Payment Structure

Best Practice: The award fee payment structure should motivate contractors to excel. Payment structures shouldn't allow contractors to receive award fees (above the base fee) for simply meeting contract requirements.

For the contracts that we reviewed, award fee payment structures didn't foster exceptional performance.

The payment structures that we reviewed associated specific numerical performance scores (between 0 and 100) with adjectival ratings--Excellent, Very Good, Good, Marginal, and Sub-Marginal--and specified the percentage of the available award fee that contractors could earn for each rating.

We found that contractors didn't have to excel to receive a large portion of available award fees. For example:

- The payment structure for Contract 0213 (Sentinel Research and Development) allowed up to 60 percent of the available award fee

for a rating of 1 to 60 percent (defined as submarginal performance).

- The payment structure for Contract 0085 (Sentinel Services) allowed up to 50 percent of the available award fee for a rating of 1 to 50 percent (defined as marginal performance).
- The payment structure for Contract 0028 (Patriot) allowed up to 70 percent of the available award fee for a rating of 61 to 70 (defined as marginal performance). (During our audit, the program office changed the payment structure to comply with Aviation and Missile Command guidance, described below.)

Aviation and Missile Command guidance also allows contractors to receive most of the available award fee without achieving a high level of performance. According to the guidance, there is no award fee for a numerical rating of 70 (described as "Marginal"--and defined as "minimally acceptable" performance). However, contractors receive 71 percent of the available award fee for a score of 71. The guidance describes performance at that level as "Good," with this definition: *" . . . exceeds the minimally acceptable level. Some areas reflect a high level of achievement; however, there are many areas where improvement can be made."*

The Office of the Assistant Secretary of the Army (Research, Development and Acquisition) provided guidance on how to structure award fees in Acquisition Letter 87-31, dated 26 August 1987. It stated:

A cost-plus-award-fee (CPAF) contract is a type of incentive contract. Therefore . . . contracting officers must ensure that the award portion of the fee is structured to incentivize the contractor to perform at a level exceeding the minimum acceptable level of the contract. In other words, the base portion of the fee is a fixed fee, payable if the contractor meets the requirements of the contract. The award portion of the fee is payable (in whole or in part), only if the contractor earns award-fee by improving performance to a level above the minimum acceptable level under the contract. Under no circumstances should the award portion of the fee be "earned" by the contractor for merely providing only minimum acceptable performance.

The Assistant Secretary reaffirmed the guidance in Acquisition Letter 90-008 issued 14 March 1990. However, personnel from the Office of the Assistant Secretary told us that the guidance was no longer in effect. (In our survey of best practices, we noted that Space and Missile Defense Command provided similar guidance to its personnel.)

If the Assistant Secretary's guidance had still been in effect--and command personnel had followed it--they would have allowed 2 to 4 percent of the available award fee (the base portion of the fee) for meeting the minimum acceptable level of performance.

We believe that the previous guidance supported the goal of using award fees to encourage contractor *excellence*. The Assistant Secretary needed to articulate its current policy on how to develop award fee payment structures that will encourage contractor excellence. Also, requiring activities needed to revise their award fee payment structures to require contractors to earn high ratings to receive high award fees.

The National Aeronautics and Space Administration's guidance to its personnel provided a best practice benchmark to achieve this goal: For an excellent rating (and the highest potential award fee), contractors must be under cost, on or ahead of schedule, and provide excellent technical performance.

We discuss actions needed to develop award fee payment structures in Recommendations A-1, A-4, and A-10.

Evaluating Performance

Government personnel needed to do a better job of evaluating contractor performance.

During this part of the award fee process, performance evaluators evaluate the contractor's performance and document their observations and conclusions. Their conclusions are the basis for decisions on the award fee amount that the government will give the contractor.

Appointing and Training Performance Evaluators

Best Practice: Performance evaluators should receive written appointments and adequate training to perform their duties.

Performance evaluators didn't receive written appointments for any of the contracts that we reviewed, and some evaluators didn't receive adequate training.

Appointments. Higher level guidance and Aviation and Missile Command guidance don't mandate written appointments for performance evaluators. But command guidance does state that the requiring

element will designate performance evaluators by name or position and provide the information to the contracting officer before contract award. We found that contracting officers weren't informed and didn't follow up on the designation of performance evaluators for four of the six contracts.

- Contracts 0085 (Sentinel Services) and 0213 (Sentinel Research and Development) each had one performance evaluator, whom requiring activities had identified to the contracting officer. (The evaluators didn't have written appointments, though.)
- For Contracts 0126 (Javelin), 0028 (Patriot), and 0083 (Hellfire), contracting officers couldn't identify the numerous personnel who evaluated contractor performance on specific engineering services memorandums. (These personnel provided input to technical monitors, who consolidated performance feedback and prepared evaluation reports.) For example, requiring activity personnel told us 32 personnel had oversight responsibilities on Contract 0126 (Javelin), but they considered only those personnel preparing evaluation reports to be evaluators.
- For Contract 0033 (GMLRS), five of six integrated process teams were responsible for performance evaluations. The teams included 31 government personnel (including 6 from foreign governments) and 64 contractor personnel. Team members also received input from five support personnel that other contractors employed. The contracting officer couldn't identify all of these personnel.

Contracting officers couldn't identify all of the personnel who made observations, even though most could identify the technical monitors who consolidated performance feedback and prepared evaluation reports.

Command personnel didn't agree on which personnel should be considered performance evaluators.

- Some believed that performance evaluators were only those personnel who were members of the award fee evaluation board.
- Some thought performance evaluators were only those personnel who consolidated performance feedback and actually wrote evaluation reports--not those personnel who provided input for the reports.

We consider performance evaluators to be personnel who observe or monitor contractor performance in specific areas of responsibility and provide evaluative input for award fee evaluation purposes. (We don't

consider members of award fee evaluation boards to be performance evaluators.)

We didn't find Army guidance requiring performance evaluator appointments to be in writing, but we do think it makes good business sense. Using written appointments allows personnel overseeing the award fee process to make sure only appropriate personnel are evaluating performance. It also makes sure those personnel are trained and are executing their duties for all assigned areas of contractor performance. Using written appointments that include responsibilities and limitations helps ensure that personnel who evaluate contractor performance understand their roles. Understanding limitations is important because improperly directing the contractor's work can result in unintentional obligations of government funds.

In our survey of best practices, we found that Space and Missile Defense Command guidance tasks the award fee evaluation board to appoint evaluators in writing. Air Force guidance also requires monitors to receive tasks in writing so they understand exactly what is expected.

Training. We couldn't effectively assess the extent of training due to lack of training documents. However, based on the information that we could obtain and interviews with some of the evaluators--including our review of evaluation documents--we concluded that evaluators needed training.

Command personnel told us that some training did occur. For example:

- The contracting officers for Contracts 0033 (GMLRS) and 0083 (Hellfire) said they provided contract-specific training and award fee evaluation instructions to the evaluators, but they couldn't identify which evaluators received the training or instructions.
- The evaluator for Contract 0085 (Sentinel Services) told us he received training on the basic aspects of the contract.

However, numerous personnel who monitored contractor performance for Contracts 0028 (Patriot), 0126 (Javelin), and 0213 (Sentinel Research and Development) hadn't received guidance on how to perform evaluations or document results. Also, we couldn't confirm that evaluators had been trained concerning limitations on their authority to direct the contractor's work.

A command process action team reviewing cost-plus-award-fee contracts identified the lack of training--other than on-the-job training--as a problem in 1991, but we couldn't identify any specific actions that command had taken to correct the problem.

In our survey of best practices, we found that Air Force guidance recommends that training encompass topics such as:

- Award fee process.
- Award fee plan.
- Roles and responsibilities.
- Evaluation techniques (including information to be gathered related to specific criteria, techniques to be used, and frequency of observations).
- Documentation requirements (to include documenting specific examples of both superlatives and shortcomings).

We believe that performance evaluators--as well as other personnel involved in the award fee process--should have this type of training.

Government downsizing and initiatives to outsource as many functions as possible have altered the workload of many Army personnel. Instead of executing programs, Army personnel are administering programs and overseeing and evaluating contractors who execute programs. Because of the absence of an effective training program, Aviation and Missile Command wasn't in a position to effectively address contract administration requirements for the increasing number of contracts.

Based on the results of this audit and other audits, we believe this problem is systemic within the Army. The Army needs to develop a strategy and plan to position itself to monitor contractor performance effectively. The strategy should address such issues as responsibilities of requiring activities and contracting offices in executing contract administration functions and training for personnel involved in the process.

We discuss actions needed to make sure appropriate training takes place in Recommendation A-5. We discuss actions needed to develop a contract administration strategy for the Army in Recommendation A-2.

Evaluating and Documenting Performance

Best Practices: Performance evaluators should observe contractor performance based on the criteria specified in the award fee plan and document results, giving specific examples to support their conclusions.

Personnel needed to do a better job of evaluating contractor performance.

For the six contracts we reviewed, evaluation documentation was often general, with few specific examples of good or bad performance. This occurred, in part, because award fee plans didn't provide criteria that were specific. And, even when specific criteria existed, the evaluators sometimes didn't apply them.

Here are some examples of problems we found:

- On Contract 0083 (Hellfire), one evaluator gave scores of 85 ("Very Good") to 92 ("Excellent"). The evaluation report contained only one or two sentences as justification for each rating factor. For example, one evaluation criterion required comparison of performance against the statement of work. The evaluator gave a rating of 85, with the justification, "The performance per the SOW was very good." Documentation for the subsequent award fee period (prepared during our audit) was somewhat more detailed, but improvements were still needed.
- On Contract 0126 (Javelin), one evaluator rated the contractor for the criterion titled "Non-Technical and Managerial Standards." Requirements for a "Very Good" rating stated that the contractor wouldn't exceed authorized hours and budgeted costs. The evaluation report stated that the contractor overran planned hours and cost by 9 percent. However, the evaluator gave a rating of 87 ("Very Good"). The evaluator didn't explain if there were mitigating factors that outweighed the cost and schedule overruns. The evaluator also gave the contractor a score of 98 ("Excellent") for the criterion titled, "Quality, Completeness, Timeliness, and Acceptability of Work." Award fee standards for the rating period specified deliverable dates for individual tasks for a "Very Good" rating and identified more stringent requirements for an "Excellent" rating. The evaluation report named tasks that the contractor performed, with a concluding statement that the work was "complete, timely, acceptable and of the highest quality." It didn't address the more stringent criteria to support an "Excellent" rating.

Aviation and Missile Command guidance did require performance evaluators to prepare a narrative justification indicating strong and weak points in performance for each assigned area. In our survey of best practices, we noted that Air Force guidance was more specific. It required evaluators to prepare written evaluations with detailed examples supporting the specific ratings that they gave. It also required evaluators to identify areas where improvement was necessary or had occurred.

Award fee evaluation boards need sufficient evidence to support award fee decisions. When documents aren't sufficient, the evaluators need to find out why and correct the cause of the problem.

We discuss actions needed to help make sure performance evaluators properly evaluate and document performance in Recommendation A-4.

Determining and Paying Award Fees

Aviation and Missile Command needed to improve several aspects of the final part of the award fee process--determining and paying award fees. Award fee payments were generally timely. However, we found problems with:

- Using contractor personnel in award fee decision making.
- Documenting decisions.
- Rolling over unearned award fees.

Making Timely Payments

Best Practice: The government should pay award fees timely to incentivize contractors to strive for excellent performance or improve deficient performance.

For the six contracts, government personnel generally made award fee payments within prescribed timeframes or were late by only a few weeks. This part of the process worked well because all of the award fee plans contained specific guidance (including timeframes) for making timely payments, and personnel usually followed the guidance.

As the Federal Acquisition Regulation notes, evaluating performance and paying fees on a periodic basis make effective the incentive that the award fee can create by inducing the contractor to improve poor performance or continue good performance.

Using Contractor Personnel in Award Fee Decision Making

Best Practice: Personnel participating in award fee decisions should be independent of the contractor whose performance is being evaluated.

Contractor personnel were used inappropriately in award fee decision-making processes for Contract 0033 (GMLRS). Here's what we found:

- To assess the contractor's performance, the government used integrated process teams, which included numerous personnel employed by the contractor. Each team was supposed to evaluate contractor performance and agree on a rating to submit to the award fee evaluation board. Allowing contractor personnel to serve as contract monitors was inappropriate because they lacked independence to rate their employer objectively; in other words, they had a conflict of interest. We reviewed rating results from one team and found that government and contractor personnel couldn't agree. For the six evaluation areas, contractor personnel gave ratings of "Excellent," with an overall rating of "Excellent," while government personnel gave ratings ranging from "Unsatisfactory" to "Good," with an overall rating of "Satisfactory." Documents stated that the team couldn't reach consensus "due to the influence of Management on the Contractor's side."
- The award fee evaluation board included three contractor personnel. The board also was supposed to reach consensus but couldn't. It submitted a government rating of 89 (representing the top of the score range for "Very Good"--only 2 points from "Excellent") and a contractor rating of 92 ("Excellent") to the board chairperson. Including contractor personnel on the board was inappropriate because they also had a conflict of interest.

We agree that involving contractors in integrated process teams can be beneficial. However, they shouldn't be part of award fee decision making related to their own performance. Instead, they should be allowed to present a self-evaluation--either orally or in writing--to the award fee evaluation board.

We discuss actions required to address use of contractor personnel in award fee decision making in Recommendations A-4 and A-7.

Documenting Decisions

Best Practice: Award fee evaluation boards and determining officials should document their decisions, clearly explaining the rationale for ratings and award fee amounts.

Award fee evaluation boards and Award Fee Determining Officials sometimes didn't adequately document their decisions.

For example:

- For Contract 0033 (GMLRS) (discussed in the preceding paragraph), government and contractor members of the award fee evaluation board recommended separate scores and award fee amounts to the board chairperson. Government board members recommended a score of 89 with an award fee of \$2,110,377, and contractor board members recommended a score of 92 with an award fee of \$2,206,304. They jointly prepared briefing charts describing the contractor's performance and the two recommendations. However, the charts didn't address specific aspects of the contractor's performance that led to their disparate ratings. The board chairperson decided to recommend a score of 90 and an award fee of \$2,203,487. The Award Fee Determining Official upheld the board chairperson's decision. There was no documentation explaining the rationale for the recommendation of the board chairperson or the decision of the Award Fee Determining Official.
- Evaluation boards and Award Fee Determining Officials for Contracts 0126 (Javelin), 0028 (Patriot), and 0083 (Hellfire) also didn't prepare detailed documents explaining their recommendations and decisions.

Several project office personnel and members of award fee evaluation boards thought that maintaining monitors' evaluations was sufficient. However, award fee evaluation boards may consider information other than the monitors' reports in making their recommendations. Likewise, Award Fee Determining Officials may consider information other than the monitors' reports and the boards' recommendations. Because their actions provide the basis for contractual payments, evaluation boards and determining officials need to document the rationale for their decisions--not just the recommended and final award fee amounts. (The DOD Supplement to the Federal Acquisition Regulation requires documenting the basis for determinations.)

It's especially important to thoroughly document decisions that deviate from the contract monitors' recommendations. According to the Army Supplement to the Federal Acquisition Regulation, an Award Fee Determining Official may deviate from an evaluation board's recommended award fee but must document the decision in sufficient detail to show that the integrity of the award fee determination process has been maintained.

Contracting officers should keep all records of award fee evaluations, recommendations, and decisions as part of the contract files in case there are disputes or litigation related to award fees.

We discuss actions required to help make sure award fee decisions are sufficiently documented in Recommendation A-4.

Rolling Over Unearned Award Fees

Best Practice: In most circumstances, unearned award fees shouldn't be rolled over into subsequent award fee periods.

For five of the six contracts, government personnel appropriately restricted use of award fee funds to the award fee periods for which the funds were designated. However, we found one instance when government personnel inappropriately rolled over unearned award fees into a later award fee period.

On Contract 0033 (GMLRS), the contractor didn't earn \$244,832 during the first award fee period. The government rolled over this amount into the final award fee period. The award fee plan allowed up to 15 percent of each performance period's unearned award fees to be rolled over into the final period. If the government continued this practice and rolled over the maximum amount (15 percent) of the available award fee for the remaining two periods, the contractor would have a second chance to earn about \$1.2 million. Also, the available award fee pool for the last period would increase from about \$4.2 million to about \$5.4 million. The chairperson of the award fee evaluation board explained that the procedure would incentivize the contractor to overcome problems that occurred over the course of the contract and add extra incentive to produce an exceptional final product. The chairperson said that this aspect of the contract was negotiated with the contractor.

We agree with the Aviation and Missile Command guidance, which doesn't permit contractors to have a second chance to receive unearned portions of award fee pools from previous periods. There may be rare

instances when it's appropriate to roll over unearned award fees. However, rolling over award fees as a routine practice diminishes the significance of goals that the government establishes for earlier award fee periods. If government personnel want to emphasize the significance of the final product, they can do so when they establish the award fee plan by assigning a higher percentage of the total available award fee pool to the final period of performance.

We discuss actions needed to address rollover of unearned award fees in Recommendation A-8.

Managing the Award Fee Process

Many of the concerns that we've discussed occurred because Aviation and Missile Command didn't place sufficient emphasis on managing critical aspects of the award fee process. Oversight responsibility wasn't clearly assigned for making sure all parts of the award fee process worked effectively:

- Requiring activities were responsible for developing award fee plans, including evaluation criteria. However, responsibility wasn't assigned to make sure:
 - Existing evaluation criteria were providing a sound basis for award fee decisions,
 - or
 - Criteria were revised when they were inappropriate or when other aspects of contractor performance needed more emphasis.
- Responsibility wasn't specifically assigned for making sure that performance evaluators received appropriate training and that they effectively evaluated and documented contractor performance.
- Responsibility wasn't specifically assigned for making sure award fee decisions were properly supported and documented.

We believe the award fee evaluation board is in the best position to oversee most aspects of the award fee process. If the board generally doesn't base its decisions on the evaluators' reports, it knows that problems exist in the award fee process. For example, as the board deliberates, it should know if evaluation criteria don't address the most critical elements of contractor performance. It should also know if

evaluations have been poorly conducted or evaluators' documentation is insufficient.

In our review of best practices, we found that Space and Missile Defense Command assigned numerous process oversight responsibilities to the award fee evaluation board. For example, the board--or its chairperson--was responsible for appointing performance evaluators and:

- Providing them with all necessary reference documents and briefing them to make sure they understand their responsibilities.
- Approving their evaluation methodology.
- Monitoring the quality and timeliness of their evaluations.
- Providing feedback to their rating chain in instances of substandard performance.

Aviation and Missile Command needed this type of process oversight. This--along with revising its guidance to incorporate the best practices described in this report--should help command accomplish its objectives in using award fee contracts.

Armywide dissemination of the guidance would help in managing award fee contracts on an even broader scale.

We discuss actions needed to manage the award fee process in Recommendation A-5. We discuss actions needed to incorporate best practices into command guidance and disseminate it throughout the Army in Recommendations A-3, A-4, and A-6.

RECOMMENDATIONS AND COMMENTS

This section contains specific recommendations and a summary of command comments for each recommendation. Verbatim command comments are in Annex H.

For the Assistant Secretary of the Army (Acquisition, Logistics and Technology)

A-1 Recommendation: Issue policy guidance on how to develop award fee payment structures that will encourage contractor

excellence. Clearly explain that contractors shouldn't receive award fees (above the base fee) for simply meeting contract requirements, and they shouldn't receive most of the available award fee without achieving a high level of performance.

Command Comments: The Office of the Assistant Secretary agreed and stated it would add procedures to the next update of the Army Supplement to the Federal Acquisition Regulation. It expected to complete the update by the end of FY 01. The Office also said it would recommend that the Director of Acquisition Policy of the Office of the Deputy Assistant Secretary for Plans, Programs and Policy include guidance in the suitable Army regulation, as appropriate.

- A-2 Recommendation:** Develop a strategy and implement a plan to position the Army to monitor contractor performance effectively. Make sure the strategy addresses issues such as responsibilities of requiring activities and contracting offices in executing contract administration functions and training for personnel involved in the process.

Command Comments: The Office of the Assistant Secretary agreed. It said it had taken and planned to take several actions to improve the Army's posture for monitoring contractor performance. It said it had trained about 2,000 personnel on evaluating contractor performance using the Army's Past Performance Information Management System (PPIMS). It planned to contact the Director of Acquisition Policy, Office of the Deputy Assistant Secretary for Plans, Programs and Policy by 30 June 2001 to recommend including necessary language in the appropriate Army regulations to implement DOD requirements for using the system to assess contractor performance.

The Office said it recognizes that contract administration isn't solely the function of the acquisition community. It said it was working with the Chief of the Program Evaluation Office, Office of the Director of Assessment and Evaluation to make sure the program management community receives necessary training on monitoring and evaluating contractor performance.

The Office pointed out that the Under Secretary of Defense for Acquisition, Technology and Logistics [formerly the Under Secretary of Defense for Acquisition and Technology] had established a task force to address reshaping the civilian acquisition workforce to meet future needs. One of the task force's initiatives calls for

assessing future mission requirements and identifying the skills and education required to address those mission requirements. The Office said it will address our concerns about executing contract administration functions and training personnel as it implements the task force's recommendations.

Agency Evaluation of Command Comments from the Office of the Assistant Secretary: During discussions on our recommendations, personnel from the Office of the Assistant Secretary suggested we discuss our audit concerns with representatives of the DOD task force. We met with task force representatives on 20 December 2000 and provided a copy of our draft report. They agreed that our concerns related to task force efforts and suggested that we pursue our concerns through several specific channels. We plan to pursue the issues as a part of our ongoing audit of administration of service contracts.

A-3 Recommendation: Task the Deputy Assistant Secretary of the Army (Procurement) to review the guidance that Aviation and Missile Command developed in response to Recommendations A-4 and A-5 and disseminate it to Army contracting officers.

Command Comments: The Office of the Assistant Secretary agreed and said it would review the guidance and distribute it to the program management community, if appropriate.

**For the Commander,
U.S. Army Aviation and Missile Command**

A-4 Recommendation: Revise Aviation and Missile Command's Acquisition Desk Guide to incorporate best practices discussed in this report. Specifically:

- Provide detailed guidance on developing award fee criteria. Incorporate (by reference) specific guidance in the DOD Supplement to the Federal Acquisition Regulation. Include guidance on addressing program risks and making sure criteria are appropriate for each designated award fee period. Include provisions for revising existing criteria if they are inappropriate or if the government wants to shift performance emphasis.

- Delete the award fee payment structure (performance chart) from Aviation and Missile Command's Acquisition Desk Guide. Implement forthcoming guidance on award fee payment structures from the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology), as we discussed in Recommendation A-1. Include general instructions on how to develop award fee payment structures to encourage excellent contractor performance.
- Include additional detail on how performance evaluators should apply designated criteria to evaluate performance and the extent of documentation required.
- Require personnel participating in award fee decisions to be independent of the contractor whose performance is being evaluated.
- Require award fee evaluation boards and Award Fee Determining Officials to document their decisions, including the rationale for ratings and award fee amounts. Require contracting officers to maintain a copy of the documentation in the contract files.

Command Comments: Aviation and Missile Command agreed with our recommendation. It stated it would revise its Acquisition Desk Guide upon receipt of revised guidance from the Assistant Secretary of the Army (Acquisition, Logistics and Technology). It also said it would give particular consideration to the best practices discussed in the report, as well as the recommendation to expand the role of award fee evaluation boards.

A-5 Recommendation: Expand the role of award fee evaluation boards in managing the award fee process. Require the boards to:

- Appoint performance evaluators in writing, outlining responsibilities and limitations.
- Provide training to all personnel involved in the award fee process. Include training on the award fee process, the award fee plan, roles and responsibilities, evaluation techniques, and documentation requirements. Make sure training records are maintained with the contract files.

- Monitor sufficiency of the performance evaluators' evaluations and documentation and take action to correct any problems.
- Coordinate with requiring activities before the beginning of each award fee period to make sure evaluation criteria are appropriate for the next designated award fee period, considering critical tasks, program risks, and desired emphasis.

Incorporate the requirement into Aviation and Missile Command's Acquisition Desk Guide and implement the requirement on all current and future contracts.

Command Comments: Aviation and Missile Command agreed with the recommendation. After command had provided formal comments, command representatives said implementing guidance would be incorporated in command's Acquisition Desk Guide when it's revised.

A-6 Recommendation: Provide a copy of Aviation and Missile Command's guidance pertaining to award fees--revised to incorporate the changes described in Recommendations A-4 and A-5--to the Deputy Assistant Secretary of the Army (Procurement).

Command Comments: Aviation and Missile Command didn't agree initially. However, after command had provided formal comments, command representatives said the Office of the Assistant Secretary could access its revised guidance on Aviation and Missile Command's Web site.

Agency Evaluation of Command Comments from Aviation and Missile Command: We agree that the Office of the Assistant Secretary can access the information easily from the Web site. On that basis, we withdraw the recommendation.

A-7 Recommendation: Require the award fee evaluation board for Contract 0033 (GMLRS) to stop allowing personnel employed by the contractor whose performance is being evaluated to participate in award fee decisions.

Command Comments: Aviation and Missile Command didn't agree with the recommendation. Command stated that its award

fee process for Contract 0033 (GMLRS) was a natural extension of the integrated process team process. It stated that the final recommendation on earned award fee and the determination of earned award fee by the Award Fee Determining Official have been, and still are, made by government personnel. Command also stated that it had taken action to remove the perception of contractor influence on the award fee process. It said it issued:

- A contract modification removing the contractor members of each integrated process team from the performance monitor function.
- Implementing instructions to the award fee plan to limit the contractor's participation at the award fee evaluation board level to providing performance-related information, summarizing performance-related information from the integrated process teams, receiving performance feedback, and formally presenting a self-evaluation from the government.

Agency Evaluation of Command Comments from Aviation and Missile Command: We don't agree that the award fee process for Contract 0033 (GMLRS) is a natural extension of the integrated process team concept—it's an overextension of the concept.

As we describe in this report, documents that we reviewed clearly showed the heavy influence of contractor personnel on the award fee decision-making process. We agree that there are benefits in establishing collaborative working relationships with contractors to strive toward mutual goals. However, command personnel must realize that government and contractor goals aren't perfectly aligned. As the Program Executive Officer for Tactical Missiles pointed out in responding to Recommendation A-9, corporations are particularly focused on maximizing shareholder wealth, and they often establish corporate goals for earned award fee. With such internal corporate pressures, contractor representatives clearly aren't in a position to rate their employer objectively.

On 30 August 2000, we met with command personnel to discuss command's reply to our draft report. We reviewed actions that command said it had taken to remove the perception of contractor influence on the award fee process. We compared the then-current version of the award fee plan (dated 5 April 2000) with briefing charts describing the award fee process change. We found that the changes discussed in command's reply hadn't been officially made:

- The contract modification hadn't been executed to remove the contractor members of each integrated process team from the performance monitor function.
- The current approved award fee plan didn't reflect the process changes that the briefing charts described. (According to the charts, contractor personnel on integrated process teams would no longer participate in preparing performance monitors' reports rating the contractor's performance. Also, contractor personnel would remain on the award fee evaluation board, though not as voting members.)

We believe that executing these changes would be a step in the right direction. The Federal Acquisition Regulation (Subpart 7.5) provides a list of functions that are considered inherently governmental or which shall be treated as such. Participation as a voting member on performance evaluation boards is included on the list. We believe that the inclusion of contractor personnel on an award fee evaluation board--even as nonvoting members--gives the perception of undue contractor influence on inherently governmental decisions.

After we received the official command reply, the contracting office advised us that the contractor hadn't completed the work required during the second award fee period and no further award fees would be granted. Tentative plans are to change to a cost-plus-incentive-fee type of contract.

A-8 Recommendation: Require the award fee evaluation board for Contract 0033 (GMLRS) to discontinue its practice of rolling over unearned award fees into subsequent periods.

Command Comments: Aviation and Missile Command didn't agree with the recommendation. It stated that rollover isn't a routine practice and there are rare instances when it's appropriate--such as for Contract 0033 (GMLRS). Command said rollover would incentivize the contractor to overcome problems that occurred over the course of the contract and add extra incentive to produce an exceptional final product. In this instance, the Principal Assistant Responsible for Contracting authorized a deviation to the Acquisition Desk Guide by approving the award fee plan with its rollover provision.

Agency Evaluation of Command Comments from Aviation and Missile Command: We agree with command's Acquisition Desk Guide, which states that contractors will not have a second chance to earn any award fee not earned during an established performance period. We also agree that there may be rare circumstances when rollover might be appropriate. However, we believe command hasn't presented a compelling argument that there are special circumstances warranting rollover of award fees for Contract 0033 (GMLRS).

Rolling award fees over to the final award fee period conveys the message that the government's objectives for each award fee period aren't really important or that the government doesn't really expect the contractor to achieve them.

If the final product is considered significantly more important than the interim objectives, then the government can assign a higher percentage of the total available award fee pool to the final period of performance. (For this contract, the award fee plan designated 33 percent of the potential fee to the final period of performance.)

There's much greater incentive for the contractor to accomplish objectives for each award fee period if it has only one opportunity to earn each period's award fee.

After we received the official command reply, the contracting office advised us that the contractor hadn't completed the work required during the second award fee period and no further award fees would be granted. Tentative plans are to change to a cost-plus-incentive-fee type of contract.

**For the Deputy for Systems Acquisition,
U.S. Army Aviation and Missile Command,**

For the Program Executive Officer, Tactical Missiles,

and

For the Program Executive Officer, Air and Missile Defense

A-9 Recommendation: Implement effective award fee evaluation criteria for the contracts included in this audit. Develop criteria or revise existing criteria to make sure they:

- Focus on the most important aspects of the program or function.
- Address program risks.
- Are as specific as possible.

Review criteria with the award fee evaluation board before each award fee period to make sure the criteria are appropriate for the designated award fee period, considering critical tasks, program risks, and desired emphasis. Revise the criteria, if necessary.

Command Comments: [The Office of the Deputy for Systems Acquisition, Aviation and Missile Command included its comments to the recommendation with the comments from Aviation and Missile Command.] The Office of the Deputy for Systems Acquisition agreed with the intent of the recommendation. It agreed to review award fee criteria with the Award Fee Evaluation Board before each award fee period to make sure criteria are appropriate. However, it didn't agree that cost should be an evaluation criterion for Contract 0085 (Sentinel Services) because cost risk was very low.

Agency Evaluation of Command Comments from the Office of the Deputy for Systems Acquisition: On a cost-type contract, the risk of cost escalation is always high because the government agrees to pay all allowable and allocable costs. As we noted in our survey of best practices, the National Aeronautics and Space Administration and the Space and Missile Defense Command require including evaluation criteria related to cost for all award fee contracts. Using product or service performance criteria without cost criteria increases the risk that contractors will strive for performance achievements without regard for cost.

Command Comments: The Office of the Program Executive Officer, Tactical Missiles submitted separate responses for its three project offices included in the audit:

The Project Office for the Multiple Launch Rocket System didn't agree with the recommendation related to Contract 0033 (GMLRS). The Office stated that:

- Adding too much specificity to award fee evaluation criteria would limit the government's flexibility to emphasize the broad range of task performance for a development contract.

- Basing award fee periods on program milestones (such as Preliminary Design Review) allowed for award fee evaluations based on a larger body of objective information. The depth and breadth of evaluation data allowed the evaluation board to assess performance across the entire program and apply appropriate judgment to emphasize key performance issues.
- Using a sole-source cost-plus-award-fee contract, the government had to painfully negotiate award fee terms. Corporations are focused on maximizing profits, and it is extremely difficult to negotiate award fee criteria that are specific and focused on only awarding fee for performance that is clearly beyond the minimum contract requirements.
- Using the existing award fee plan has proven very successful, to date.

Agency Evaluation of Command Comments from the Office of the Program Executive Officer, Tactical

Missiles: We don't agree with the Project Office's rationale that its existing award fee criteria for Contract 0033 (GMLRS) are fully effective. The Office's current method of evaluation involves assessing virtually every aspect of work accomplishment. By emphasizing "the broad range of task performance," the Office emphasizes nothing.

Implementing the best practice that we recommend would focus the contractor's attention on the most critical aspects of performance--those elements of performance that pose the greatest risk to the government. By identifying those critical aspects of performance to the contractor--and basing the contractor's award on those critical aspects--the government can use the award fee as a risk management tool as well as an incentive.

Having the evaluation board assess performance across the entire program after the award fee period is complete--and then decide which aspects of performance are key--doesn't appear to optimize the partnering approach that the Program Office said it seeks to achieve. We believe the best practice that we recommend is more straightforward: the government clearly identifies its priorities and incentivizes the contractor to work toward those goals by basing award fee criteria on those priorities. The contractor shouldn't have to figure out what was important to the government after the fact.

The Program Office's job is to represent the government's interest. The government doesn't *have to* negotiate award fee payment structures or criteria. The only reason for the government to use an award fee contract is to incentivize excellent performance. Award fee contracts are expensive to administer. There's no point in incurring those administrative costs if the government negotiates award fee arrangements that reward mediocrity and it doesn't derive the potential benefit of the contract type--excellent performance.

After we received the official command reply, the contracting office advised us that the contractor hadn't completed the work required during the second award fee period and no further award fees would be granted. Tentative plans are to change to a cost-plus-incentive-fee type of contract.

The Project Office for Aviation, Rockets and Missiles (formerly the Project Office for Air-to-Ground Missile Systems) agreed, saying it would review the award fee plan for Contract 0083 (Hellfire) and revise it as required before each option is exercised.

The Project Office for the Javelin initially didn't agree with the recommendation as it related to Contract 0126 (Javelin). However, in subsequent communications, it agreed with the intent of the recommendation.

The Project Office stated that, since engineering services memorandums have different requirements, it is impractical to develop an award fee plan that addresses specific requirements for all services memorandums. However, within each engineering services memorandum, the Project Office will elaborate on specific criteria from the award fee evaluation plan to be used for evaluation. (For example, for the criteria pertaining to Technical Performance of Work, it would describe what constitutes completeness.) If sufficient criteria for evaluation of an engineering services memorandum aren't in the award fee plan, the government will notify the contractor of a change to the plan and modify the contract before issuing the services memorandum.

The Office also agreed to review criteria with the award fee evaluation board before each award fee period to make sure criteria are appropriate for the designated award fee period, considering critical tasks, program risks, and desired emphasis.

Command Comments: The Office of the Program Executive Officer, Air and Missile Defense agreed with the intent of the recommendation as it related to Contract 0028 (Patriot). The Office believed that the award fee criteria were appropriate; however, it agreed to further define the areas that each criterion encompasses. It also agreed to coordinate with evaluators and evaluation board members before each award fee period to make sure criteria are appropriate.

A-10 Recommendation: Revise award fee payment structures to encourage excellent contractor performance for award fee contracts. Implement forthcoming guidance on award fee payment structures from the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) and Aviation and Missile Command, as we discussed in Recommendations A-1 and A-4.

Command Comments: [The Office of the Deputy for Systems Acquisition, Aviation and Missile Command included its comments to this recommendation with the comments from Aviation and Missile Command.] The Office of the Deputy for Systems Acquisition agreed with the recommendation, as it related to Sentinel Contracts 0213 and 0085. The Office stated that it would revise award fee payment structures for the Sentinel contracts included in the audit by 1 September 2000. The Office stated it would implement forthcoming guidance on payment structures upon receipt.

[Auditor's Note: On 7 December 2000, the Project Manager for the Sentinel contracts provided contract modifications reflecting revision of the award fee payment structures for the two contracts.]

Command Comments: The Program Executive Officer, Tactical Missiles submitted separate responses for its three project offices included in the audit:

The Project Office for the Multiple Launch Rocket System agreed to implement forthcoming guidance on all future award fee contracts and to consider renegotiating existing contracts based on the guidance. However, it didn't believe revising the payment structure for Contract 0033 (GLMRS) was in the best interest of the government (as it discussed in responding to Recommendation A-9).

Agency Evaluation of Command Comments from the Office of the Program Executive Officer, Tactical

Missiles: Command's response, as it relates to future award fee contracts, meets the intent of our recommendation. However, we don't agree that the approved award fee plan for Contract 0033 (GLMRS) encourages contractor excellence. Under the plan's payment structure, the contractor would receive 50 percent of the award fee for slightly better than satisfactory performance.

After we received the official command reply, the contracting office advised us that the contractor hadn't completed the work required during the second award fee period and no further award fees would be granted. Tentative plans are to change to a cost-plus-incentive-fee type of contract.

The Project Office for Aviation, Rockets and Missiles (formerly the Project Office for Air-to-Ground Missile Systems) agreed with the intent of the recommendation. It stated that, although it believed the current payment structure for Contract 0083 (Hellfire) encouraged excellent performance, it would implement forthcoming guidance on all future award fee contracts. However, it stated that revising the existing payment structure on the contract included in the audit wouldn't be prudent because there was little time left on the period of performance.

Agency Evaluation of Command Comments from the Office of the Program Executive Officer, Tactical Missiles: Command's response meets the intent of our recommendation.

The Project Office for the Javelin agreed with the intent of the recommendation. It agreed to implement forthcoming procedures for award fee payment structures, to be included in the next revision to the Army Supplement to the Federal Acquisition Regulation, on all future award fee contracts.

Agency Evaluation of Command Comments from the Office of the Program Executive Officer, Tactical Missiles: Command's response meets the intent of our recommendation.

Command Comments: The Program Executive Officer, Air and Missile Defense agreed with the recommendation as it related to Contract 0028 (Patriot), stating it would implement forthcoming guidance on award fee payment structures.

B – MANAGEMENT CONTROLS

OBJECTIVE

Did the Army regulation that prescribes policies for using award fees identify key management controls?

CONCLUSION

No. The Army Supplement to the Federal Acquisition Regulation included a management control checklist (Appendix DD). However, the checklist didn't identify key controls to help make sure the award fee process was effective. As a result, there was little assurance that command would effectively use award fees to manage risk and encourage excellence in contractor performance.

Our detailed discussion of this condition starts on page 46. Our recommendation starts on page 48.

BACKGROUND

Management controls are the procedures, techniques, and devices that managers employ to make sure that what *should* occur in their daily operations *does* occur on a continuing basis. AR 11-2 (Management Control) requires Headquarters, DA functional proponents to develop and maintain policies and regulations that include effective management controls for their areas of functional responsibility.

AR 11-2 defines *key* management controls as those controls that are absolutely essential to ensure critical processes operate as intended.

DISCUSSION

In this section, we discuss one area:

Evaluation Checklist

The Army Supplement to the Federal Acquisition Regulation included a management control checklist (Appendix DD). However, the checklist didn't identify key controls to help make sure the award fee process was effective.

The Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) is the Headquarters, DA functional proponent for contracting operations. In February 2000, it revised the management control evaluation checklist for contract office management and included it as Appendix DD to the Army Supplement to the Federal Acquisition Regulation.

Even though the checklist included several test questions that related to contract administration in general, it didn't specifically address the award fee process. These were the questions:

- Are qualified individuals selected as contracting officer representatives?
- Do contracting officer representatives' written designations clearly indicate their authority and limitations?
- Are inspectors, functional managers, and others routinely involved in performing contract administration functions, advised of their duties and responsibilities in contract administration?
- Is contractor performance of service or commercial activity contracts monitored according to established surveillance plans?
- Are formal measurable (for example, in terms of quality, timeliness, and quantity) performance standards and surveillance plans developed to monitor the services to be performed?

During our audit, we found weaknesses in the award fee process, specifically in:

- Developing award fee plans, to include identifying evaluation criteria, addressing program risks, and making sure criteria were appropriate for designated award fee periods.

- Evaluating contractor performance, to include appointing and training performance evaluators and assessing and documenting contractor performance.
- Determining and paying award fees, to include using contractor personnel in award fee decision making, documenting the rationale for decisions by award fee evaluation boards and Award Fee Determining Officials, and rolling over unearned award fees into subsequent periods.

We discuss details concerning these weaknesses in Objective A.

Checklist users wouldn't have identified these weaknesses by applying the evaluation checklist because the:

- Existing checklist didn't include questions related to the weaknesses,
- or
- Checklist questions that were included weren't sufficiently specific.

As a result, there was little assurance that command would effectively use award fees to manage risk and encourage excellence in contractor performance.

During the past 2 years, DOD and DA leaders have expressed concern over whether award fees were being used effectively to encourage contractor excellence.

- On 27 February 1999, the Under Secretary of Defense (Acquisition and Technology) issued a memorandum to the Service Secretaries, expressing concern that government personnel were granting high award fees that weren't commensurate with actual contractor performance. Program managers said such inconsistencies resulted, in part, because evaluation factors didn't include appropriate elements or rating periods were too long to focus the contractor's attention on emerging problems. (Annex G includes the memorandum.)
- On 12 October 1999, the Deputy Assistant Secretary of the Army (Procurement) issued a list of primary areas of interest that Army procurement offices should emphasize during FY 00. It included using award fees properly to provide motivation for excellence in contractor performance.
- On 9 November 1999, the Deputy Assistant Secretary of the Army (Procurement) issued a memorandum to the Army contracting and

acquisition communities, reiterating many of the same concerns that the Under Secretary of Defense (Acquisition and Technology) cited in the 27 February 1999 memorandum. (Annex G includes the memorandum.)

Our audit confirmed problems that these DOD and Army leaders were concerned about. Therefore, the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) should include key management controls over the award fee process in the Armywide checklist.

We discuss actions needed to make sure key management controls over the award fee process are included in the evaluation checklist in Recommendation B-1.

RECOMMENDATION AND COMMENTS

This section contains our specific recommendation and a summary of command comments for the recommendation. Annex H contains verbatim command comments.

For the Assistant Secretary of the Army (Acquisition, Logistics and Technology)

B-1 Recommendation: Revise the Management Control Evaluation Checklist in the Army Supplement to the Federal Acquisition Regulation or incorporate key management controls over the award fee process in appropriate Army guidance. As a minimum, include questions to make sure:

- Requiring activities identify specific award fee evaluation criteria for assessing contractor performance. Make sure the criteria address program risk and are appropriate for designated award fee periods. Revise the criteria when necessary.
- The award fee payment structure encourages excellence by rewarding only contractor performance that exceeds contract requirements.
- Performance evaluators receive written appointments that outline responsibilities and limitations, and they are

sufficiently trained in how to evaluate and document contractor performance.

- Award fee evaluation boards and Award Fee Determining Officials document the rationale for their decisions.

Command Comments: The Office of the Assistant Secretary agreed, stating it would incorporate the controls outlined in the recommendation in appropriate guidance by the end of FY 01. This guidance may include the updated Army Supplement to the Federal Acquisition Regulation, the source selection manual, or other appropriate guidance.

ANNEXES

AUDIT SCOPE AND METHODOLOGY

We performed the audit:

- From October 1999 through May 2000.
- At the activities shown in Annex B.
- According to generally accepted government auditing standards and included the tests of management controls that we considered necessary under the circumstances.

The audit covered transactions representing operations current at the time of the audit. We concentrated on six cost-plus-award-fee contracts that U.S. Army Aviation and Missile Command's Acquisition Center awarded during FY 98 and FY 99.

To determine if Aviation and Missile Command and the Offices of the Program Executive Officer for Tactical Missiles and Program Executive Officer for Air and Missile Defense effectively used award fees to help manage risk and encourage excellence in contractor performance, we reviewed:

- Applicable guidance on cost-plus-award-fee contracts in the DOD and Army Supplements to the Federal Acquisition Regulation and Aviation and Missile Command's Acquisition Desk Guide.
- Contract documents and clauses applicable to award fees.
- Documents (when available) related to appointing and training performance evaluators.
- Award fee documents, including award fee plans, evaluation criteria, performance evaluations, and records related to decisions of award fee evaluation boards and Award Fee Determining Officials.
- Award fee guidance from the U.S. Air Force, National Aeronautics and Space Administration, and U.S. Army Space and Missile Defense Command.

We also discussed award fee processes with responsible Acquisition Center representatives, contracting officers and specialists, contract administration personnel (including performance evaluators), project management personnel, award fee evaluation board chairperson and members, Award Fee Determining Officials, and subject matter experts at

the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology).

To determine if the Army regulation that governs the award fee process adequately identified key management controls, we:

- Identified key management controls that were essential for managing the award fee process.
- Reviewed the management control checklist developed by the DA functional proponent to determine if the checklist adequately addressed management controls related to the award fee process.

ACTIVITIES INCLUDED IN THE AUDIT

Headquarters, Department of the Army, Office of the:

Assistant Secretary of the Army (Acquisition, Logistics and Technology)

Program Executive Officer, Tactical Missiles

- Project Manager, Air-to-Ground Missile Systems *
- Project Manager, Javelin
- Project Manager, Multiple Launch Rocket System

Program Executive Officer, Air and Missile Defense

- Project Manager, Patriot *

U.S. Army Materiel Command:

Headquarters, U.S. Army Aviation and Missile Command

- Deputy for Systems Acquisition
 Project Manager, Short Range Air Defense
- Acquisition Center

*The Project Manager, Air-to-Ground Missile Systems is now the Project Office for Aviation, Rockets and Missiles. The Project Manager, Patriot is now the Lower Tier Project Office.

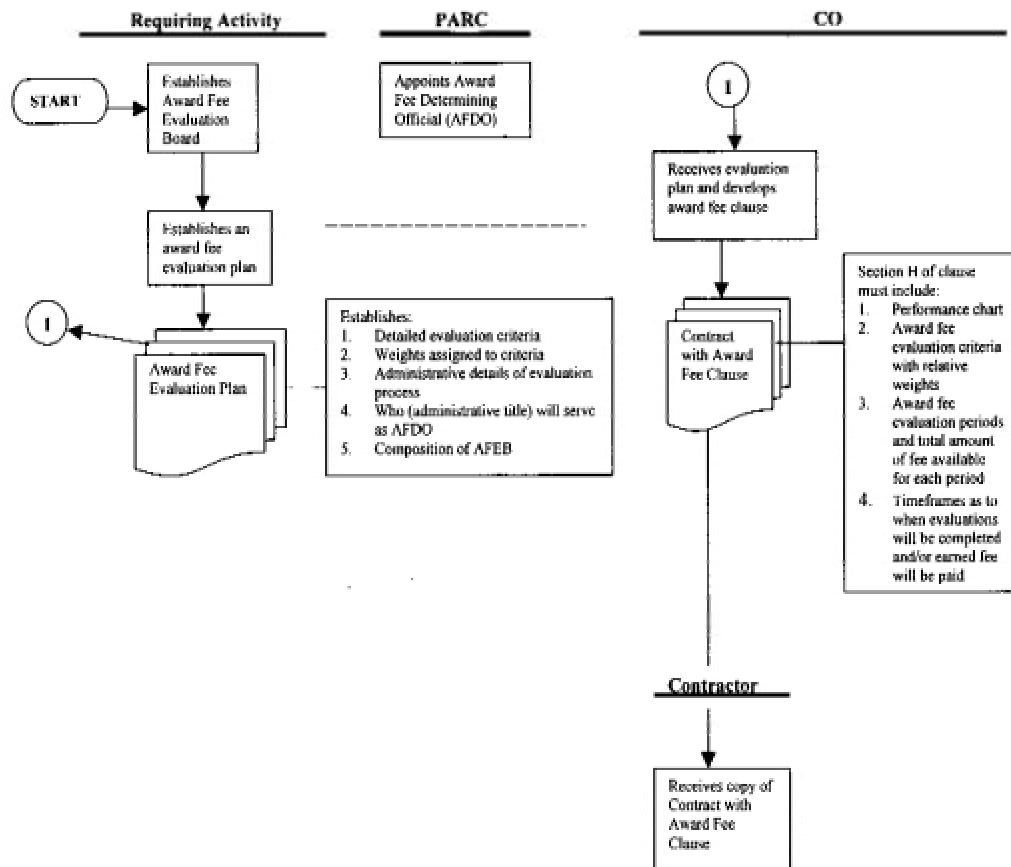
SUMMARY OF PROBLEMS AND OPPORTUNITIES TO EMPLOY BEST PRACTICES

	Identifying Award Criteria	Addressing Program Risk	Revising Criteria	Award Fee Payment Structure	Appointing Evaluators	Training Evaluators	Monitoring and Documenting Performance	Using Contractor Personnel	Documenting Decisions	Timely Award Payments	Rolling Over Award Fees
Javelin DAAH01-98-C0126	X	X	X	X	X	X	X		X		
Sentinel DAAH01-98-C0213		X	X	X	X	X					
Guided Multiple Launch Rocket System DAAH01-98-C0033	X	X	X	X	X	X	X	X	X		X
Patriot DAAH01-99-C0028	X	X	/I	X	X	X	X		X		
Hellfire DAAH01-99-C0083	X	X	X	X	X	X	X		X		
Sentinel DAAH01-99-C0085		X	X	X	X	X				X	

X – Denotes problem or opportunity to employ best practices.
/I -- No criteria developed.

FLOWCHART OF AWARD FEE PROCESS (Per Aviation and Missile Command Guidance)

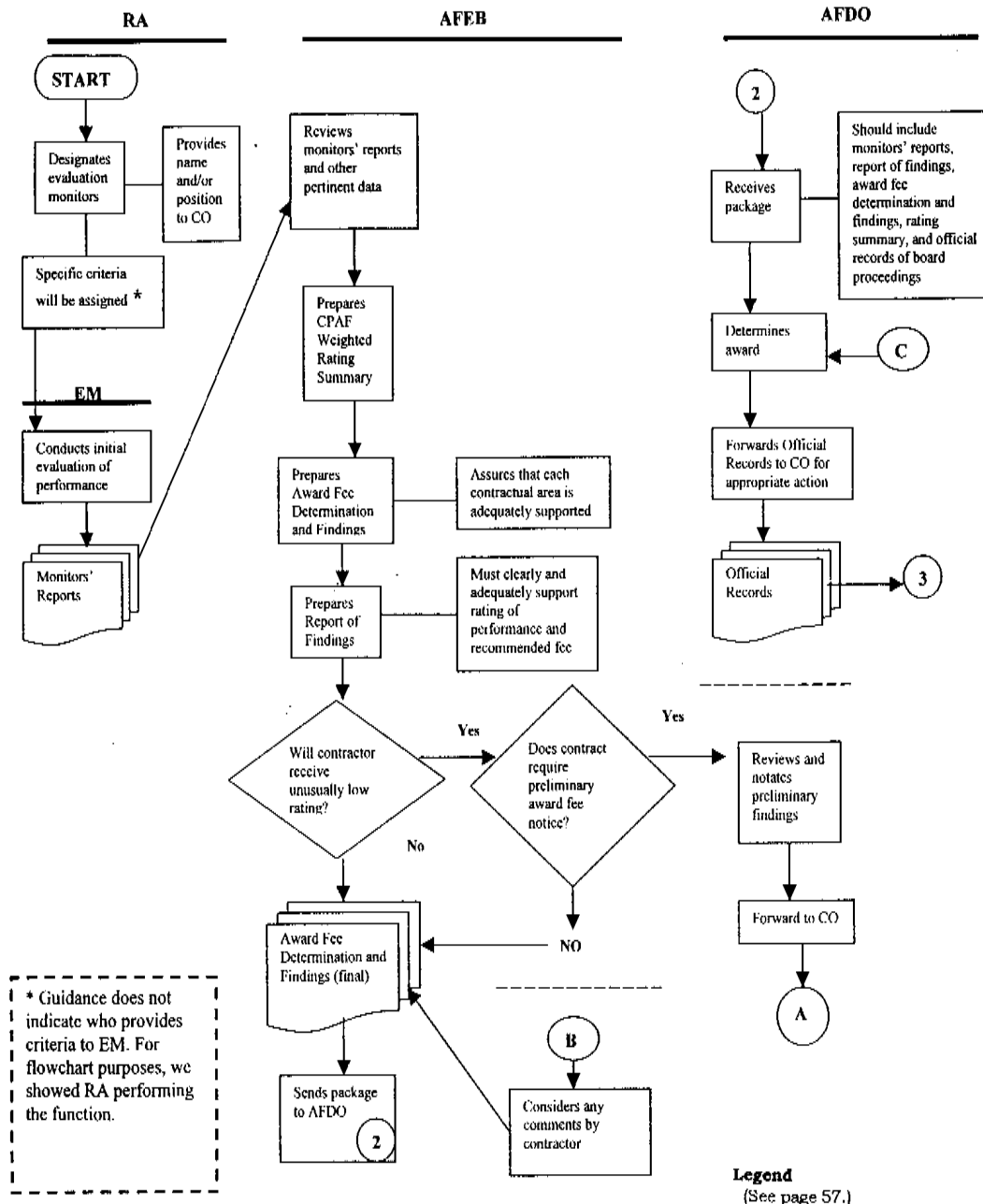
Developing the Award Fee Plan



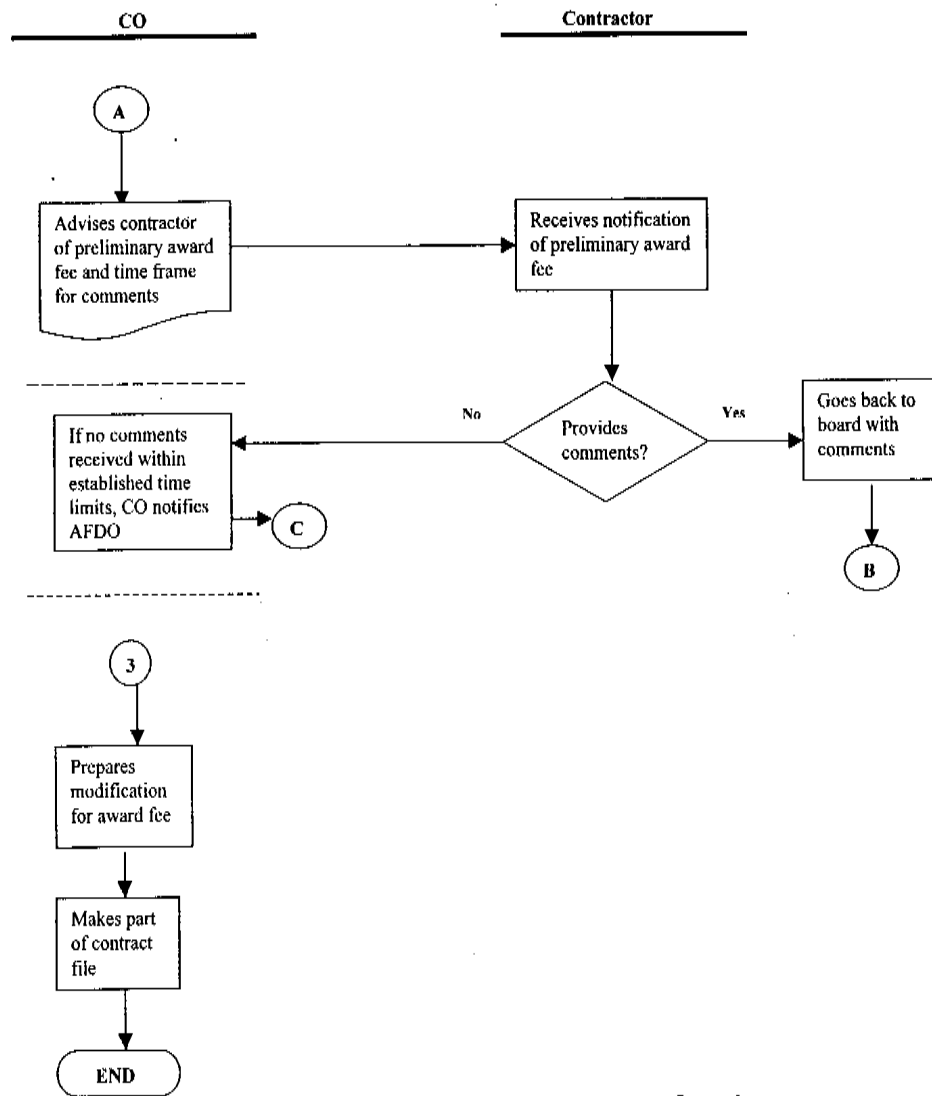
Legend

AFDO-Award Fee Determining Official
 AFEB-Award Fee Evaluation Board
 CO-Contracting Officer
 CPAF-Cost Plus Award Fee
 EM-Evaluation Monitors
 PARC-Principal Assistant Responsible for Contracting
 RA- Requiring Activity

Monitoring the Contract and Determining the Award Fee



Monitoring Contract and Determining Award Fee (page 2)



CONTRACTS INCLUDED IN THE AUDIT

(Data as of 31 May 2000)

Contracts Included in the Audit

Contract Number	Purpose	Contract Value (in millions)	Base Fee Amount (Percent)	Award Fee Periods Completed	Award Fee Potential Value for Contract (in millions)	Amount Available for period	Award Fees granted (Amount)	Award Fees granted (Percent)
DAAH0198C0126	Javelin (Services)	\$ 18.4	2	1 2 3 4	\$ 1.06	\$ 129,750 \$ 331,574 \$ 278,172 \$ 312,054	\$ 124,560 \$ 311,679 \$ 244,791 \$ 259,004	96.0 94.0 88.0 83.0
DAAH0198C0213	Sentinel Transmitter (Research and Development)	\$ 7.9	2	1 2 3 4	\$ 0.87	\$ 88,996 \$ 87,216 \$ 87,216 \$ 158,991	\$ 80,278 \$ 85,080 \$ 86,169 \$ 134,130	90.2 97.6 98.8 84.4
DAAH0198C0033	Guided Multiple Launch Rocket System (Research and Development)	\$ 123.5	4	1	\$ 12.90	\$ 2,448,319	\$ 2,203,487	90.0
DAAH0199C0028	Patriot (Services)	\$ 502.7	2	1	/c	\$ 3,236,000	\$ 2,992,000	92.5
DAAH0199C0083	Hellfire (Services)	\$ 22.2	2	1 2	/c	\$ 31,351 \$ 106,204	\$ 29,686 \$ 94,522	94.7 89.0
DAAH0199C0085	Sentinel (Services)	\$ 46.5	3 /a 2 /b	1 2	\$ 0.57	\$ 43,806 \$ 45,062	\$ - \$ 74,846	- 84.2
	TOTALS	\$ 821.2				\$ 7,384,711 (actual)	\$ 6,720,232 (actual)	90.9 (average)

/a Applies to contract line items 3,4,5, and option year contract line item 9.

/b Applies to contract line items 6 and 7.

/c Total value unknown—based on actual labor hours expended.

SAMPLE PERFORMANCE EVALUATION CRITERIA

Defense Supplement to the Federal Acquisition Regulation

Part 216, Table 16-1

		Submarginal	Marginal	Good	Very Good	Excellent
A	(A-1) Time of Delivery	Consistently late on 20% plans	Late on 10% plans w/o prior agreement	Occasional plan late w/o justification.	Meets plan schedule	Delivers all plans on schedule & meets prod. Change requirements on schedule
	(A-2) Action on Anticipated delays	Does not expose changes or resolve them as soon as recognized.	Exposes changes but is dilatory in resolution on plans.	Anticipates changes, advise Shipyard but misses completion of design plans 10%.	Keeps Yard posted on delays, resolves independently on plans.	Anticipates in good time, advises Shipyard, resolves independently and meets production requirements
	(A-3) Plan Maintenance.	Does not complete interrelated systems studies concurrently.	System studies completed but constr. Plan changes delayed.	Major work plans coordinated in time to meet production schedules.	Design changes from studies and interrelated plant issued in time to meet product schedules.	Design changes, studies resolved and test data issued ahead of production requirements
B	(B-1) Quality of Work.	25% dwgs. Not compatible with Shipyard repro. processes and use.	20% not compatible with Shipyard repro. processes and use.	10% not compatible with Shipyard repro. processes and use.	0% dwgs prepared by Des. Agent not compatible with Shipyard repro. processes and use.	0% dwgs. Presented incl Des. Agent, vendors, subcont. Not compatible with Shipyard repro. processes and use.
	(B-2) Thoroughness and Accuracy of Work.	Is brief on plans tending to leave questionable situations for Shipyard to resolve.	Has followed guidance, type and standard dwgs	Has followed guidance, type and standard dwgs Questioning and resolving doubtful areas	Work complete with notes and thorough explanations for anticipated questionable areas.	Work of highest caliber incorporating all pertinent data required including related activities.
	(B-3) Engineering Competence	Tendency to follow past practice with no variation to meet reqmts. job in hand	Adequate engrg. To use & adapt existing designs to suit job on hand for routine work.	Engineered to satisfy specs., guidance plans and material provided.	Displays excellent knowledge of constr. Reqmts. considering systems aspect, cost, shop capabilities and procurement problems.	Exceptional knowledge of Naval shipwork & adaptability to work process incorporating knowledge of future planning in Design.
B	(B-4) Quality of Work (Cont'd)	Indifferent to requirements of associated activities, related systems, and Shipyard advice	Satisfactory but dependent on Shipyard of force resolution of problems without constructive recommendations to subcont. or vendors	Maintains normal contract with associated activities depending on Shipyard for problems requiring military resolution.	Maintains independent contact with all associated activities, keeping them informed to produce compatible design with little assistance for Yard.	Maintains expert contact, keeping Yard informed, obtaining info from equip, supplies w/o prompting of Shipyard.
	(B-5)	Constant surveillance required to keep job from slipping -- assign to low priority to satisfy needs.	Requires occasional prodding to stay on schedule & expects Shipyard resolution of most problems.	Normal interest and desire to provide workable plans with average assistance & direction by Shipyard.	Complete & accurate job. Free of incompatibilities with little or no direction by Shipyard.	Develops complete and accurate plans, seeks out problem areas and resolves with assoc. act. ahead of schedule.
C	(C-1) Effectiveness in Controlling and/or Reducing Costs	Planning of work left to designers on drafting boards	Supervision sets & reviews goals for designers	System planning by supervisory, personnel, studies checked by engineers.	Design parameters established by system engineers & held in design plans	Mods. to design plans limited to less than 5% as result lack engrg. System correlation
	(C-2) Control Direct Charges (Except Labor)	Expenditures not controlled for services.	Expenditures reviewed occasionally by supervision	Direct charges set & accounted for on each work package.	Provides services as part of normal design function w/o extra charges.	No cost overruns on original estimates absorbs service demands by Shipyard.
	(C-3) Performance to Cost Estimate	Does not meet cost estimate for original work or charges 30% time.	Does not meet cost estimate for original work or charges 20% time.	Exceeds original est. on change orders 10% time and meets original design costs.	Exceeds original est. on changing orders 5% time	Never exceeds estimates of original package or change orders.

AWARD FEE MEMORANDUMS FROM DOD AND ARMY LEADERS



ACQUISITION AND
TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010



27 FEB 1998

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
ATTENTION: SERVICE ACQUISITION EXECUTIVES

SUBJECT: Award Fees

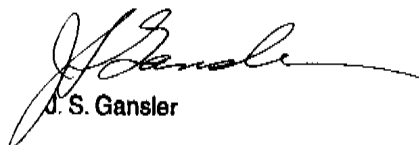
Award fee can be an effective motivator for excellence in contract performance in areas such as quality, timeliness, technical ingenuity, and cost effective management. The amount of award fee earned is determined by the Government's judgmental evaluation of contractor performance against the criteria stated in the contract. Evaluations serve as periodic notifications to contractors of areas where improvement is expected. We know that contractor management monitors closely the levels of fee earned.

When programs are reviewed that have performance problems, schedule slips, and cost growth, that are being performed on award fee contracts, program managers often indicate that the contractors are nevertheless earning award fees in the 90 percents. Ratings of that level are not consistent with poor contract performance. Program Manager responses to why this occurs are that rating factors did not include appropriate elements (such as cost), or the rating periods were too long, making it difficult to focus the contractor's attention on emerging problems, or the Fee Determination Official was at a level too close to the government program office and put a premium on maintaining cordial relations with the contractor's program office.

Award fee periods, evaluation factors, and whether earned award fee percentages are commensurate with overall contractor performance, should be assessed during contract performance. To the extent the wrong factors are being evaluated or the judgment of the evaluators is not motivating performance excellence, consideration should be given to modifying the contract or changing evaluators.



Please sample your award fee contracts and determine whether the factors used in prospective award fee periods are suitable for the intended positive outcome. Also, when award fee programs are reviewed, it would be helpful if you would judge whether evaluations reflect overall contract performance. I would be interested in your views on other ways to improve award fee evaluations.



J. S. Gansler

cc:
Dr. George Schneider (OUSD(A&T)/S&TS)
Mr. John Landon, (C3I/PA&E)



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

SAAL-PP

09 NOV 1999

MEMORANDUM FOR SEE DISTRIBUTION *

SUBJECT: Award Fees and Contractor Performance Evaluations

The Under Secretary of Defense (Acquisition and Technology) USD(A&T) issued a memorandum (enclosed) stating his concerns that award fees earned by contractors are not always commensurate with overall performance.

I share the USD(A&T) concerns that some Army contractors receive higher award fees than are consistent with the level of performance achieved. Additionally, each award fee earned should be based on the period being evaluated and not "rolled over" from previous contracts.

An award fee is an incentive payment, based on the contractor's ability to achieve, or surpass, a set standard. Use of award fee is a valuable tool for motivating contractors to improve performance while at the same time providing government personnel an opportunity for close monitoring of the contractor's performance in technical, management, schedule and cost. The Federal Acquisition Regulation (FAR) Subpart 16.405-2 clearly states contractors earn the award fee during performance. The Defense Federal Acquisition Regulation Supplement (DFARS) 216.405-2 further states "normally, award fee is not earned when the fee determining official has determined that contractor performance has been sub-marginal or unsatisfactory." The government judgmentally determines and measures a contractor's performance within specifically designated performance categories, evaluation criteria and evaluation periods, as determined in the award fee plan.

If desired the Award Fee Determining Official (AFDO) in turn appoints members of the Award Fee Evaluation Board (AFEB). Army FAR Supplement (AFARS) 16.404-2(b)(2) affirms the AFEB should consist of contracting, technical and acquisition management personnel most knowledgeable with the contract requirements and contractor performance evaluation. Contractor performance evaluation is accomplished by the AFEB as an on-going process throughout the life of the contract. The contracting office along with the customer of the requirement will appoint an Award Fee Determining Official to evaluate the contractors

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-2-

performance and to determine or recommend the amount of the award to the contracting officers should execute. The award fee should reflect the AFEB's surveillance and documentation of contractor performance throughout each rating period. The AFEB should include contract administration personnel and program managers as appropriate. Furthermore, selecting board members shall be coordinated with the Program Executive Officer (PEO) or other customer management officials.

I request each of you review award fee contracts under your cognizance to determine whether the rating factors in the award fee evaluation plan are consistent with desired future outcomes and whether the evaluations that have been conducted accurately reflect overall contract performance. If necessary, I suggest a change in the rating factors, evaluators, or evaluation period as appropriate. Also, I encourage you to continue monitoring your award fee contracts to ensure the award fees contractors receive more accurately reflect their actual performance, thereby motivating the poor performers to strive for increased efficiency.

Point of contact on my staff is Ms. Susan Erwin, SAAL-PP, telephone 703-681-9292 or DSN 761-9292.



Kenneth J. Oscar
Deputy Assistant Secretary of the Army
(Procurement)

Enclosure

*[Auditor's Note: The DISTRIBUTION list includes the Army's Principal Assistants Responsible for Contracting, Heads of Contracting Activity, Program Executive Officers, Program Managers, and Deputies for Systems Acquisition.]

VERBATIM COMMENTS BY COMMAND



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

29 JAN 2001

SAAL-PP

MEMORANDUM FOR AUDIT MANAGER, U.S. ARMY AUDIT AGENCY,
ATTN: KATHY BELL, 3101 PARK CENTER DRIVE,
ROOM 1464, ALEXANDRIA, VA 22302-1596

SUBJECT: Audit of Best Practices for Using Award Fees (Assignment Code
AO-101S)

This correspondence is in response to the subject audit of using Award Fees at U.S. Army Aviation and Missile Command; the Office of the Program Executive Officer, Tactical Missiles; and the Office of the Program Executive Officer, Air and Missile Defense.

I have reviewed the subject audit and Command Comments are provided below:

Recommendation A-1: Issue policy guidance on how to develop award fee payment structures that will encourage contractor excellence. Clearly explain that contractors shouldn't receive award fees (above the base fee) for simply meeting contract requirements, and they shouldn't receive most of the available award fee without achieving a high level of performance.

Command Comments: Concur. As stated in your report, the Deputy Assistant Secretary of the Army for Procurement (DASA-P) issued a memorandum in November 1999 providing guidance for using award fees. This guidance, however, was not issued as policy and was not all-inclusive. We recognize the need to develop policy and will add procedures to the next update of the Army Federal Acquisition Regulation Supplement, which we expect to complete by end of FY 01. Also, as appropriate, we'll recommend that the Director of Acquisition Policy, Office of the Deputy Assistant Secretary for Plans, Programs and Policy, include guidance in the suitable Army regulation.

Recommendation A-2: Develop a strategy and implement a plan to position the Army to monitor contractor performance effectively. Make sure the strategy addresses issues such as responsibilities of requiring activities and contracting offices in executing contract administration functions and training for personnel involved in the process.

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-2-

Command Comments: Concur. With the emphasis on contracting out Army functions and the decrease in in-house personnel resources, we recognize the need for the Army to plan for monitoring contractor performance in the future.

We have taken and plan to take several actions to improve the Army's posture for monitoring contractor performance. SAAL-PP has trained about 2,000 personnel on evaluating contractor performance using the Army's Past Performance Information Management System (PPIMS). By 30 June 2001, we will contact the Director of Acquisition Policy, Office of the Deputy Assistant Secretary for Plans, Programs and Policy, and recommend including necessary language in the appropriate Army regulation(s) to implement DOD requirements for preparing PPIMS assessment reports of contractor performance.

We recognize that contract administration is not solely the function of the acquisition community, and we will coordinate with other organizations as necessary. We are currently working with the Chief of the Program Evaluation Office, Office of the Director of Assessment and Evaluation, to ensure the program management community receives necessary training on monitoring and evaluating contractor performance.

The Under Secretary of Defense for Acquisition, Technology and Logistics has established a task force to address reshaping the civilian acquisition workforce to meet future needs. The task force has identified several initiatives that are to be addressed immediately. One of these—"Develop and Implement Comprehensive, Needs-based Human Resource Performance Plans for the Civilian Acquisition Workforce"—requires assessing future mission requirements and identifying the skills and education required to address those mission requirements. In the Army's implementation of the task force's recommendations, we will address your concerns about executing contract administration functions and training personnel.

Recommendation A-3: Task the Deputy Assistant Secretary of the Army (Procurement) to review the guidance that Aviation and Missile Command developed in response to Recommendations A-4 and A-5 and disseminate it to Army contracting officers, if appropriate.

Command Comments: Concur. We will review the Aviation and Missile Command's revised guidance and distribute it to the program management community, if appropriate.

-3-

Recommendation B-1: Revise the Management Control Evaluation Checklist in the Army Federal Acquisition Regulation Supplement or incorporate key management controls over the award fee process in appropriate Army guidance. As a minimum, make sure the following key controls are addressed:

- Requiring activities identify specific award fee evaluation criteria for assessing contractor performance. Make sure the criteria address program risk and are appropriate for designated award fee periods. Revise the criteria when necessary.
- The award fee payment structure encourages excellence by only rewarding contractor performance that exceeds contract requirements.
- Performance evaluators receive written appointments that outline responsibilities and limitations, and they are sufficiently trained in how to evaluate and document contractor performance.
- Award Fee Evaluation Boards and Award Fee Determining Officials document the rationale for their decisions.

Command Comments: Concur. We will incorporate the controls outlined in the recommendation in appropriate guidance. This guidance may include the updated Army Federal Acquisition Regulation Supplement, the source selection manual, or other appropriate guidance. The target date for completing this action is end of FY 01.



Edward G. Elgart
Acting Deputy Assistant Secretary of the Army
(Procurement)

REPLY TO
ATTENTION OFDEPARTMENT OF THE ARMY
UNITED STATES ARMY AVIATION AND MISSILE COMMAND
REDSTONE ARSENAL, ALABAMA 35898-6000

AMSAM-IR

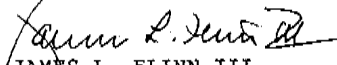
28 Jul 00

MEMORANDUM FOR U.S. Army Audit Agency, Office of the Deputy
Auditor General, Acquisition and Materiel
Management Audits, 3101 Park Center Drive,
Alexandria, VA 22302-1596

SUBJECT: U.S. Army Audit Agency Draft Report, Best Practices
for Using Award Fees (AMCOM Project 02-0999-053)

1. Reference memorandum, SAAG-AMA, 14 Jun 00, subject: Audit
of Best Practices for Using Award Fees (Assignment Code AO-
101S).
2. The U.S. Army Aviation and Missile Command (AMCOM) comments
to the subject report are enclosed.
3. The point of contact is Mr. William R. Huseman, AMSAM-IR,
DSN 897-1785 or commercial 256-313-1785.

Encl


JAMES L. FLINN III
Deputy to the Commanding
General

AN EQUAL OPPORTUNITY EMPLOYER

COMMAND COMMENTS
 AAA Draft Report
 Best Practices for Using Award Fees
 (AMCOM Project 02-0999-053)

Objective A -- Use of Award Fees

Additional Facts:

1. Reference page 17, second paragraph. AAA states that the award fee plan for DAAH01-98-C-0126 didn't contain any information on criteria for evaluation. This is incorrect. It may not have had criteria that the auditor thought was appropriate, but it did include criteria. The award fee plan and contract provisions include criteria that are used to evaluate contractor's performance.

AAA further states that at the request of the contractor, the project office developed specific criteria-like guidelines for one rating period. This informal information was provided as a courtesy to the contractor and was not a formal part of the evaluation process. The actual evaluation was performed in accordance with the award fee plan and contract provisions.

It is apparent that AAA believes the award fee criteria should be very specific, such as delivers data on a certain date, etc., in order to receive a specific score. The contracting office believes that, if you have very objective criteria, the appropriate contract type should be a performance incentive contract versus an award fee contract, which is subjective by nature.

2. Reference page 20, Best Practice. The report states that payment structures should not allow contractors to receive award fees above the base fee for simply meeting contract requirements. In an example on page 21, AAA points out that for contract 0028 (PATRIOT) the contractor would receive 71 percent of the available award fee for a score of 71 (described as "good" and defined as exceeding the minimally acceptable level). AAA is concerned that the award fee structures are too lax and argues that the contracting office should only reward contractors for a high level of performance. While we agree that the structure could be improved, we believe that as long as we are limited to a base fee of no more than three percent (two percent if the contractor has claimed Cost of Money) it is reasonable for the contractor to receive some award fee even if it just meets contract requirements. A two or three percent

fee is very low even for minimally acceptable work. In the PATRIOT example, if the contractor was evaluated at a score of 71 and received 71 percent of the available award fee plus the two percent base fee, they would only be earning a total fee of approximately 7.7 percent, not an extravagant amount for the scope of these services.

3. Reference page 23, second paragraph, second bullet. The statement that "...contracting officers couldn't identify the numerous personnel who evaluated contractor performance..." highlights a difference of opinion as to what constitutes an evaluator. AAA apparently believes that anyone providing data regarding the contractor's performance is an evaluator. We don't believe this is true. A person can provide data regarding contractor's performance to an individual who is the evaluator without the person providing the data actually being the evaluator. The evaluators take the information gathered (usually from individuals who work for them) and make the evaluations of the contractors' performance using that data.

4. Reference page 29, fourth paragraph. The report states that Award Fee Evaluation Boards (AFDOs) and determining officials sometimes didn't adequately document their decisions. As an example the report states that the AFDO and determining official for Contract 0028 (PATRIOT) didn't prepare detailed documents explaining their recommendations and decisions. In fact, the documentation supporting the recommendations and the AFDO's decisions is very detailed. The details are in the Award Fee Evaluation Reports, not the cover memos summarizing the meetings and the recommendations. If the Board is in agreement with what is said in a report and no additional information is considered, then this means of documenting the recommendations is adequate.

Recommendation A-4:

Revise Aviation and Missile Command's Acquisition Desk Guide to incorporate best practices discussed in this report.
Specifically:

- Provide detailed guidance on developing award fee criteria. Incorporate (by reference) specific guidance in the DOD Supplement to the Federal Acquisition Regulation. Include guidance on addressing program risks and making sure criteria are appropriate for each designated award fee period. Include provisions for revising existing criteria if they are inappropriate or if the government wants to shift performance emphasis.

- Delete the award fee payment structure (performance chart) from Aviation and Missile Command's Acquisition Desk Guide. Implement forthcoming guidance on award fee payment structures from the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology), as we discussed in Recommendation A-1. Include general instructions on how to develop award fee payment structures to encourage excellent contractor performance.

- Include additional detail on how performance evaluators should apply designated criteria to evaluate performance and the extent of documentation required.

- Require personnel participating in award fee decisions to be independent of the contractor whose performance is being evaluated.

- Require Award Fee Evaluation Boards and determining officials to document their decisions, including the rationale for ratings and award fee amounts. Require contracting officers to maintain a copy of the documentation in the contract files.

Action Taken:

Concur. The AMCOM Acquisition Desk Guide will be revised to assure that it is in full compliance with the most recent higher headquarters regulations and guidance. AMCOM will create a small Integrated Product Team (IPT) with appropriate requiring element offices, Legal, and the Acquisition Center to analyze award fee guidance and procedures, with particular consideration given to AAA's suggested best practices and suggested expansion of the role of Award Fee Evaluation Boards. It should be noted, however, that this command has previously been advised/directed that local guidance/supplements to higher regulations should not be repetitive of those higher regulations. Any additional/expanded guidance will be subject to that direction. Therefore, we believe it would be prudent to delay the policy guidance revisions until receipt of revised guidance from the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) in accordance with AAA's Recommendation A-1. A target date for this action cannot be realistically provided at this date, as it is contingent upon completion of higher headquarters guidance.

Recommendation A-5:

Expand the role of Award Fee Evaluation Boards in managing the award fee process. Require the boards to:

- Appoint performance evaluators in writing, outlining responsibilities and limitations.
- Provide training to all personnel involved in the award fee process. Include training on the award fee process, the award fee plan, roles and responsibilities, evaluation techniques, and documentation requirements. Make sure training records are maintained with the contract files.
- Monitor sufficiency of the performance evaluators' evaluations and documentation and take action to correct any problems.
- Coordinate with requiring activities before the beginning of each award fee period to make sure evaluation criteria are appropriate for the next designated award fee period, considering critical tasks, program risks, and desired emphasis.

Incorporate the requirement into Aviation and Missile Command's Acquisition Desk Guide and implement the requirement on all current and future contracts.

Action Taken:

Concur. See response to Recommendation A-4.

Recommendation A-6:

Provide a copy of Aviation and Missile Command's guidance pertaining to award fees--revised to incorporate the changes described in Recommendations A-4 and A-5--to the Deputy Assistant Secretary of the Army (Procurement).

Action Taken:

Nonconcur. As stated in our response to Recommendation A-4 above, we believe our revised guidance should be prepared after receipt of revised guidance from higher headquarters. In addition, any revised guidance developed by this command shall have been developed exclusively for this command and, therefore, should not be disseminated to all Army contracting officers.

Recommendation A-7:

Require the Award Fee Evaluation Board for Contract 0033 (GMLRS) to stop allowing personnel employed by the contractor whose performance is being evaluated to participate in award fee decisions.

Action Taken:

Nonconcur. This is impractical and virtually impossible in today's business environment. The Secretary of Defense has directed the adoption within the DOD of the IPT process to conduct as many acquisition functions as possible. The GMLRS EMD contract uses IPTs in virtually every aspect of the contract, including the award fee process. The GMLRS award fee process was a first attempt to construct a more successful business relationship through effectively applying contractual incentives utilizing the IPT process, within the framework of the MLRS Partnering Agreement. The intent of the GMLRS award fee process is to facilitate open communications and trust, enable the parties to proactively anticipate and resolve problems early, focus and motivate contractor effort on the most important aspects of the program, and reduce the time and cost of award fee administration. The GMLRS award fee process is a natural extension of the IPT concept. It provides a framework for a team-based approach to award fee administration focused upon the accomplishment of the parties' mutual objectives. It more effectively utilizes scarce resources by utilizing the "subject matter experts" (government and contractor) that work on the program on a daily basis, rather than adding additional government personnel to perform only the Performance Monitors function. It must be clearly understood, however, that the inherently governmental functions of making the final recommendation on earned award fee and the determination of earned award fee by the AFDO have been, and still are, made by government personnel, not contractor personnel. Contractor personnel actively participate in the process by providing performance-related information and receiving feedback on performance on a continuous basis.

The AAA report doesn't recognize that actions to remove the perception of contractor influence on the award fee process have already been taken. Like most first attempts at innovation, areas for improvement were identified and corrective action was implemented. A contract modification was executed removing the contractor members of each IPT from the Performance Monitors function. The government IPT co-chairmen for each IPT are now solely responsible for the Performance

Monitors function. Implementing Instructions to the GMLRS Award Fee Plan have also been issued, limiting the contractor's participation at the Award Fee Evaluation Board (AFEB) level to providing performance related information, summarizing performance related information from the IPTs, receiving feedback on performance on a continuous basis, and formally presenting a self-evaluation to the government.

Recommendation A-8:

Require the Award Fee Evaluation Board for Contract 0033 (GMLRS) to discontinue its practice of rolling over unearned award fees into subsequent periods.

Action Taken:

Nonconcur. Rollover is not a routine practice within AMCOM. The AMCOM Acquisition Desk Guide does not normally permit rollover. There are rare cases, however, where rollover is appropriate in other than service type contracts. In the research and development of a major system, in this specific case the GMLRS EMD, it was felt that rollover (up to a maximum of 15 percent of the available fee for each award fee period) was advantageous to add additional incentives for improved contractor performance. It was felt that the procedure would incentivize the contractor to overcome problems that occurred over the course of the contract and add extra incentive to produce an exceptional final product. In this specific case the AMCOM Principal Assistant Responsible for Contracting (PARC) authorized an individual deviation to the AMCOM Acquisition Desk Guide by approving the GMLRS Award Fee Plan with its rollover provision.

Recommendation A-9:

Implement effective award fee evaluation criteria for the contracts included in this audit. Develop criteria or revise existing criteria to make sure they:

- Focus on the most important aspects of the program or function.
- Address program risks.
- Are as specific as possible.

Review criteria with the Award Fee Evaluation Board before each award fee period to make sure the criteria are appropriate for

the designated award fee period, considering critical tasks, program risks, and desired emphasis. Revise the criteria, if necessary.

Action Taken:

Concur with the intent of the recommendation. For the most part, AAA found that the DSA contracts included in the audit had effective award fee evaluation criteria. The only deficiencies found were that cost wasn't included as an evaluation criterion on contract 0085 (Sentinel) and that a criterion wasn't appropriate for the designated award fee period on Contract 0213 (Sentinel).

As far as including cost as an evaluation criterion on Contract 0085, we do not agree. As a task oriented service contract, the criteria were developed and the cost risk was evaluated as very low and, therefore, not of value for rewarding contractor performance.

As far as reviewing criteria with the AFEB before each award fee period to make sure the criteria are appropriate for the designated period, we agree but the criteria for Contract 0213 (Sentinel) doesn't need to be changed. While it was true that the criteria could not be empirically measured, design evaluation was included in the measure of the contractor's success. The contractor will now begin delivering products that will support a more accurate evaluation of the criteria.

Recommendation A-10:

Revise award fee payment structures to encourage excellent contractor performance for award fee contracts. Implement forthcoming guidance on award fee payment structures from the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) and Aviation and Missile Command, as we discussed in Recommendations A-1 and A-4.

Action Taken:

Concur. Award fee payment structures for Contracts 0085 (Sentinel) and 0213 (Sentinel) will be revised by 1 Sep 00. Forthcoming guidance on award fee payment structures will be implemented when received.

COMMAND COMMENTS
 AAA Draft Report
 Best Practices for Using Award Fees
 (AMCOM Project 02-0999-053)

Comments on Other Matters Section of the Report (Page 7)

We believe the Other Matters section of the report should be dropped. The report shouldn't question the change in contract type since AAA stated that their review did not include evaluation of contract type. We believe the contracting decisions that were made are in the Government's best interest. A complete explanation of the rationale utilized in arriving at these acquisition decisions is provided in the following paragraphs:

a. The report states "Contracting personnel told us that they changed the contract type because the proponent--the Project Manager for Test, Measurement, and Diagnostic Equipment--had incorrectly included material and travel costs in the award fee pool amount. Contracting personnel concluded that correcting the error would reduce the award fee pool so much that the potential award fee would be insufficient to incentivize the contractor."

The alleged inclusion of material and travel costs in the award fee pool amount stems from the fact that, while the contract was awarded to buy labor hours only, task orders issued by the requiring element did, in fact, require substantial material and travel. In actuality, the requirements the contract was ultimately intended to satisfy were not as reflected in the contract or statement of work. Considering the types of effort being procured and the attendant cost uncertainties, a Cost-Plus-Fixed-Fee (CPFF) contract type was thought to be the most appropriate for this action. This was the reason for changing the contract type.

b. The report states "In addition, we had identified significant problems with the award fee plan."

An award fee plan did not exist at the time of contract award or at the time of the audit. The PM TMDE was in the process of initiating such a plan but was having difficulty due to the sizes and timing of the individual efforts to be measured. The AAA auditor did express some concerns about how the plan should be structured and shared them in general terms with the contracting officer. Consideration of these areas of concern,

however, further complicated the task of writing an award fee plan that would have been workable and acceptable to all parties. During this attempt to correct the situation it was confirmed that a Cost-Plus-Award-Fee (CPAF) contract had not been a good choice of contract type and agreement was reached with the contractor to convert the contract to a CPFF instrument.

c. The report states "However, we were concerned that the selection of a cost-plus-fixed-fee contract type might not be in the government's best interest because the government bears the greatest cost risk under that type of contract."

While it is true that the Government bears all cost risk in a CPFF contract, this fact neither makes it a bad selection nor precludes its use in appropriate circumstances. In our current situation, where the cost uncertainties of contract performance are such that they cannot be estimated with sufficient confidence to use a meaningful cost incentive or determine a fair and reasonable fixed price arrangement, the use of a CPFF contract is proper, acceptable, and preferable to other contract types that would force the contractor to include these uncertainties in his price.

d. The report states "On 3 April 2000, the contracting officer told us that further review indicated that the cost-plus-fixed-fee contract was still not the optimal contracting arrangement, and he planned to replace the contract with a basic ordering agreement."

On the surface this comment is correct. However, it appears that the auditor may believe that the reason for replacing the current contract is the contract type. This assumption would be incorrect; it is anticipated that a number of orders placed under the planned basic ordering agreement will be issued on a CPFF basis. The reason for replacing the current contract is that the contract itself and the statement of work do not accurately reflect the requirements it was intended to satisfy or the intent of the parties regarding the conduct of business in pursuit of those requirements. The contracting officer, requiring element, and system attorney are all in agreement that the current contract is still not the best vehicle for the tasks envisioned and four separate instruments should be issued to replace it:

(1) A Basic Ordering Agreement under which the Government will be able to issue orders for individual engineering services tasks. These orders will generally be

issued on a CPFF basis, although provision will be made to use other contract types as found appropriate.

(2) A contract for maintenance and update of Technical Publications. Due to the impossibility of estimating the total effort with sufficient confidence or accuracy to permit any other type of contract, this is envisioned as a CPFF effort.

(3) A contract for Technical Assistance on an as-needed basis. For the reason stated in paragraph (2) above, this contract is also envisioned as a CPFF effort.

(4) A contract for Technical Assistance for the Government of Korea. This effort is sufficiently defined to permit use of a Firm Fixed Price contract.

Action is ongoing to generate separate statements of work and requirements packages for these proposed contractual instruments. All are expected to be in place not later than 15 Dec 2000. Upon issuance of each of these instruments, no additional tasks for the effected requirements will be placed under the current contract and it will, effectively, be terminated.



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
PROGRAM EXECUTIVE OFFICE, TACTICAL MISSILES
REDSTONE ARSENAL, ALABAMA 35898-8000

SFAE-MSL-P

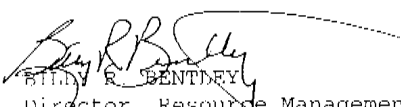
16 AUG 2000

MEMORANDUM FOR Deputy, U.S. Army Audit Agency, Auditor
General, Acquisition and Materiel
Management Audits, 3101 Park Center Drive,
Alexandria, VA 22302-1596

SUBJECT: U.S. Army Audit Agency Draft Report, Best
Practices for Using Award Fees (AMCOM Project 02-0999-053)

1. Reference memorandum, SAAG-AMA, 14 Jun 00, subject:
Audit of Best practices for Using Award Fees (Assignment
Code AO-101S).
2. The Program Executive Office, Tactical Missiles
comments to the subject report are enclosed as follows:
 - a. MIRS Project Office (encl 1).
 - b. ARM Project Office (encl 2).
 - c. JAVELIN Project Office (encl 3).
3. The point of contact is Ms. Pat Dailey, SFAE-MSL P,
DSN 746 9075 or commercial 256-876-9075.

3 Encis


BILLY R. BENTLEY
Director, Resource Management
PEO, Tactical Missiles

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MLRS-PROJECT OFFICE
 COMMAND COMMENTS
 AAA Draft Report
 Best Practices for Using Award Fees
 (AMCOM Project 02-0999-053)

Objective A -- Use of Award Fees

Recommendation A-9:

Implement effective award fee evaluation criteria for the contracts included in this audit. Develop criteria or revise existing criteria to make sure they:

- Focus on the most important aspects of the program or function.
- Address program risks.
- Are as specific as possible.

Review criteria with the Award Fee Evaluation Board before each award fee period to make sure the criteria are appropriate for the designated award fee period, considering critical tasks, program risks, and desired emphasis. Revise the criteria, if necessary.

Action Taken:

Nonconcur. The total award fee pool for contract performance on Contract 0033 (GMLRS) is divided into Award Fee Milestones. The Award Fee Milestones emphasize the most important aspects of the GMLRS program (Preliminary Design Review, Critical Design Review, Production Qualification Testing, and the final delivery of the Product Definition Data Package). The contractor must successfully complete each specific award fee milestone before award fee can be earned. The Award Fee Evaluation Board (AFEB) Chairman (MLRS Project Manager) makes the final determination when each award fee milestone has been completed. This approach focuses contractor performance on successful completion of the most important aspects of the GMLRS EMD contract. Successful completion of an award fee milestone is a better point to evaluate contractor performance than the traditional time-based award fee evaluation period method. A larger body of objective information is available for evaluation purposes. In contrast, under the traditional time-based award fee evaluation periods, objective performance

information may not be available when the period is over, which makes performance evaluation difficult.

As stated in the report, generally, risks in weapon system programs relate to cost, schedule, and performance (technical achievement). The GMLRS Award Fee Plan specifically addresses these elements of program risk and more. The plan contains two evaluation criteria - Program Management, and Technical Performance and Affordability. The Program Management evaluation criterion includes the contractor's effectiveness in controlling costs and/or reducing costs to the Government, the contractor's timeliness and adherence to the Master Program Schedule, and the contractor's integration of required functional disciplines through the Integrated Product Team (IPT) process. The Technical Performance and Affordability evaluation criterion combines the contractor's effectiveness in meeting or exceeding technical contract and performance requirements within the established Average Unit Procurement Cost (AUPC) objective. This evaluation criterion incentivizes the contractor's design tradeoff process between technical performance and affordability. Recently, both Defense and Army leadership have stressed the importance of life cycle management. The focus of life cycle management is to develop, field and sustain high quality warfighting systems at the lowest possible cost. This award fee plan was our first attempt at combining technical performance and AUPC as an evaluation criterion, which incentivizes the tradeoff process to develop a high quality warfighting system at the lowest total cost. To date, it has proven to be very successful.

Every attempt was made to develop an award fee plan that was as clearly defined as possible. The performance chart included in the GMLRS Award Fee Plan was completely revised from the suggested chart contained in the AMCOM Acquisition Desk Guide and includes more specific adjective rating definitions. The Award Fee Milestones are clearly defined in terms of completion and the Evaluation Criteria are more clearly defined than any previous award fee plan we have developed. However, there is a difference, and associated challenges, between a competitive and sole source Cost Plus Award Fee (CPAF) contract which AAA fails to appreciate. In a competitive CPAF contract, the Government can unilaterally delineate an award fee approach that includes evaluation criteria that are very specific and focused on only awarding fee for contractor performance that is clearly beyond the minimum requirements of the contract. If a potential Offeror does not like it, they do not have to submit an offer to the solicitation. In a sole source CPAF contract, every word of the contract is painfully negotiated. Anything

having to do with fee is particularly scrutinized and can have a positive or negative impact on the final negotiated award fee pool amount. Today's corporations are particularly focused on maximizing shareholder wealth, and usually establish corporate goals for earned award fee. This internal corporate pressure to earn high award fees makes it extremely difficult to negotiate evaluation criteria that are specific and focused on only awarding fee for contractor performance that is clearly beyond the minimum requirements of the contract.

Lastly, adding too much specificity to award fee evaluation criteria limits the Government's flexibility to emphasize the broad range of task performance inherent in a development contract. The evaluation data for the first GMLRS award fee period may have appeared overwhelming to AAA because of its depth and breadth. This collection of data, however, allowed the award fee evaluation board to assess performance across the entire program and apply the appropriate judgement to emphasize key performance issues. The GMLRS award fee plan establishes appropriate evaluation criteria allowing considerable Government flexibility to assess important aspects of the program during each performance period. Adding too much specificity to the GMLRS award fee criteria would prove too restrictive to the Government.

Recommendation A-10:

Revise award fee payment structures to encourage excellent contractor performance for award fee contracts. Implement forthcoming guidance on award fee payment structures from the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) and Aviation and Missile Command, as we discussed in Recommendations A-1 and A-4.

Action Taken:

Concur. The MLRS Project Office will implement forthcoming guidance on award fee payment structures when received from AMCOM and the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) on all future award fee contracts and will consider re-negotiating existing contracts based on that guidance. However, as it stands, revising the award fee payment structure for the GMLRS contract is not in the best interest of the Government as discussed in our response to Recommendation A-9. The approved GMLRS award fee plan provides the appropriate level of specificity and encourages contractor excellence in the GMLRS engineering and development contract.

Additional Comments:

1. Although not addressed to us, we disagree with the portions of Recommendations A-1 and B-1 that deal with the contractor receiving award fees only if contract requirements are exceeded. Contractor performance in a cost type contract cannot exceed contract requirements without approval to increase contract scope and cost in the form of a contract modification. The award fee payment structure can only encourage excellence in the manner in which contract requirements are performed. Examples include such things as adherence to program plan (cost and schedule), effectiveness in implementing an IPT process, and an effective CAIV process.

2. Although not addressed to us, we disagree with Bullet 4 of Recommendation A-4 and Recommendation A-7. This is impractical and virtually impossible in today's business environment. The Secretary of Defense has directed the adoption within the DOD of the IPT process to conduct as many acquisition functions as possible. The GMLRS EMD contract uses IPTs in virtually every aspect of the contract, including the award fee process. The GMLRS award fee process was a first attempt to construct a more successful business relationship through effectively applying contractual incentives utilizing the IPT process, within the framework of the MLRS Partnering Agreement. The intent of the GMLRS award fee process is to facilitate open communications and trust, enable the parties to proactively anticipate and resolve problems early, focus and motivate contractor effort on the most important aspects of the program, and reduce the time and cost of award fee administration. The GMLRS award fee process is a natural extension of the IPT concept. It provides a framework for a team-based approach to award fee administration focused upon the accomplishment of the parties' mutual objectives. It more effectively utilizes scarce resources by utilizing the "subject matter experts" (Government and contractor) that work on the program on a daily basis, rather than adding additional Government personnel to perform only the Performance Monitors function. It must be clearly understood, however, that the GMLRS award fee is a unilateral Government decision made by the Award Fee Determining Official (AFDO). The process used to collect, distill, and weigh the performance information is an innovative, streamlined process involving IPTs that allow real-time contractor input for accuracy and fairness. The inherently governmental functions of making the final recommendation on earned award fee and the determination of earned award fee by the AFDO have been, and still are, made by

Government personnel, not contractor personnel. Contractor personnel actively participate in the process by providing performance-related information and receiving feedback on performance on a continuous basis.

The AAA report doesn't recognize that actions to remove the perception of contractor influence on the award fee process have already been taken. Like most first attempts at innovation, areas for improvement were identified and corrective action was implemented. A contract modification was executed removing the contractor members of each IPT from the Performance Monitors function. The Government IPT co-chairmen for each IPT are now solely responsible for the Performance Monitors function. Implementing Instructions to the GMLRS Award Fee Plan have also been issued, limiting the contractor's participation at the AFEB level to providing performance related information, summarizing performance related information from the IPTs, receiving feedback on performance on a continuous basis, and formally presenting a self-evaluation to the Government. Complete removal of the contractor from the award fee process would require a bilateral contract modification, fail to use IPTs to their fullest to streamline an otherwise time-consuming contractual process and not be in the best interest of the Government.

3. Although not addressed to us, we disagree with Recommendation A-8. Rollover is not a routine practice. The AMCOM Acquisition Desk Guide does not normally permit rollover. There are some cases, however, where rollover is appropriate in other than service type contracts. The GMLRS contract is an engineering and manufacturing development contract. Although award fee milestones are established at critical program events, performance in subsequent periods can have a significant positive impact on the overall program. Rollover of unearned fee permits the Government to incentivize improved performance by adding further weight to the performance of the critical milestone at the conclusion of the development process. Thus in the GMLRS case, it was felt that rollover (up to a maximum of 15 percent of the available fee for each award fee period) was advantageous to add additional incentives for improved contractor performance. It was felt that the procedure would incentivize the contractor to overcome problems that occurred over the course of the contract and add extra incentive to produce an exceptional final product. Therefore, the AMCOM Principal Assistant Responsible for Contracting (PARC) authorized an individual deviation to the AMCOM Acquisition Desk Guide by approving the GMLRS Award Fee Plan with its rollover provision.

4. The GMLRS Award Fee Plan is the most comprehensive and thoroughly reviewed plan we have ever produced. It was produced and negotiated with the contractor, using the IPT process, as a part of an alpha contract process. It was coordinated within the MLRS Project Office and PEO Tactical Missiles, reviewed by AMCOM Legal Office, and approved by the AMCOM PARC. It encompasses several innovations that attempt to construct a more successful business relationship through effectively applying contractual incentives. These innovations include: performance-based award fee milestones; a team-based approach to award fee administration; technical performance combined with AUFC as an evaluation criteria which incentivizes a tradeoff process to develop a high quality warfighting system at the lowest total cost; and a revised performance chart which provides more specific adjective rating definitions.

ARM PROJECT OFFICE
 COMMAND COMMENTS
 AAA Draft Report
 Best Practices for Using Award Fees
 (AMCOM Project 02-0999-053)

Objective A -- Use of Award Fees

Recommendation A-9:

Implement effective award fee evaluation criteria for the contracts included in this audit. Develop criteria or revise existing criteria to make sure they:

- Focus on the most important aspects of the program or function.
- Address program risks.
- Are as specific as possible.

Review criteria with the Award Fee Evaluation Board before each award fee period to make sure the criteria are appropriate for the designated award fee period, considering critical tasks, program risks, and desired emphasis. Revise the criteria, if necessary.

Action Taken:

Concur. Our Engineering Services contract (DAAH01-99-C-0083) is awarded for one year with two exercisable options, each one year in length. Before each option is exercised, as required in the contract, we ensure that the evaluation criteria are appropriate for the designated award fee period and that the evaluation criteria: (i) focus on the most important aspects of the program or function, (ii) address program risks, and (iii) are as specific as possible. Although we feel that the award fee criteria contained in the subject contract is appropriate for evaluating contractor performance, in keeping with the above, the award fee plan will be reviewed and revised as required before each option is exercised.

Recommendation A-10:

Revise award fee payment structures to encourage excellent contractor performance for award fee contracts. Implement forthcoming guidance on award fee payment structures from the

ENCL 2

Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) and Aviation and Missile Command, as we discussed in Recommendations A-1 and A-4.

Action Taken:

Concur with the intent of the recommendation. Although we feel the award fee payment structure currently encourages the contractor to perform in an excellent manner, the ARM Project Office will implement forthcoming guidance on award fee payment structures when received from AMCOM and the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) on all future award fee contracts. However, revising the existing award fee payment structure on the contract reviewed during the audit would not be prudent at this juncture, as there is little time left on the period of performance.

JAVELIN PROJECT OFFICE
 COMMAND COMMENTS
 AAA Draft Report
 Best Practices for Using Award Fees
 (AMCOM Project 02-0999-053)

Objective A -- Use of Award Fees

Recommendation A-9:

Implement effective award fee evaluation criteria for the contracts included in this audit. Develop criteria or revise existing criteria to make sure they:

- Focus on the most important aspects of the program or function.
- Address program risks.
- Are as specific as possible.

Review criteria with the Award Fee Evaluation Board before each award fee period to make sure the criteria are appropriate for the designated award fee period, considering critical tasks, program risks, and desired emphasis. Revise the criteria, if necessary.

Action Taken:

Nonconcur with that portion of the recommendation to develop criteria or revise existing criteria to make sure they: (i) focus on the most important aspects of the program or function, (ii) address program risks, and (iii) are as specific as possible. The basis of this recommendation for JAVELIN is the statement on page 17 of the report that "the award fee plan for DAAH01-98-C-0126 (Contract 0126-Javelin) didn't contain any information on criteria for evaluation". The document entitled "JAVELIN Project Office, Program Executive Office, Tactical Missiles, Redstone Arsenal, AL 35898, JAVELIN Engineering Services Award Fee Evaluation Plan" contains a section titled "Appendix B, Evaluation Criteria". That section identifies the following two criteria that are used in each award fee evaluation:

- (1) Technical Performance of Work -

Encl 2

a. Quality, completeness and acceptability of work (accuracy, clarity) included reporting and documentation of completed effort.

b. Thoroughness of performance against base-ESM and sub-ESM (attainment of objective and responsiveness to technical direction).

(2) Non-Technical and Managerial -

a. Effectiveness in planning/staffing and controlling internal costs, including consideration of labor mix and skill categories.

b. Adherence to schedule requirements (other than data items and reports).

The section also discusses the relative weights of the two criteria. Criterion 1 will receive almost twice as much importance as Criterion 2. All factors under Criterion 1 are equal in weight. And all factors under Criterion 2 are equal in weight. Even though the award fee plan was not provided to the contractor, the exact words, as stated above, are in Section H-3.m., Award Fee Provision, of the contract (page 21 of 46). The criteria are very effective and meet all legal requirements for awarded fee contracts.

Nonconcur with that portion of the recommendation to review criteria with the Award Fee Evaluation Board (AFEB) before each award fee period to make sure the criteria are appropriate for the designated award fee period, considering critical tasks, program risks, and desired emphasis. The basis of this recommendation for JAVELIN is the statement on page 19 of the report that "Government personnel developed criteria-like guidelines for Contract 0126 (Javelin) for the first award fee period, at the contractor's request. The guidelines contained task due dates that related only to the first award fee period, so they weren't appropriate for the next award fee period." The contractor did not request these guidelines. They were developed as a result of an informal conversation between the JAVELIN Project Manager and personnel from the contractor's office. The JAVELIN Project Management Office provided the contractor with informal information ("stretch goals") in an attempt to encourage maximum effort when performing work under each sub-ESM. This data was never formally requested (in writing) from the contractor, nor was this information made a part of the contract. The evaluation criteria are contained in the contract and they are reviewed with the award board members

to make sure they are appropriate for each succeeding award fee period. Revisions are made when necessary.

Recommendation A-10:

Revise award fee payment structures to encourage excellent contractor performance for award fee contracts. Implement forthcoming guidance on award fee payment structures from the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) and Aviation and Missile Command, as we discussed in Recommendations A-1 and A-4.

Action Taken:

Concur with the intent of the recommendation. The award fee payment structure in contract DAAH01-98-C-0126 does encourage the contractor to achieve excellent performance ratings. Therefore, no changes are planned at this time. However, the JAVELIN Project Office may, after review, implement forthcoming guidance on award fee payment structures when received from AMCOM and the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) on all future award fee contracts.

Additional Facts:

1. On page 23, AAA states that the contracting officer couldn't identify numerous personnel who evaluated contractor performance on specific engineering services memorandums. The AMCOM Acquisition Desk Guide, at 16.405-2(200)f, states that evaluation monitors will be designated by name and/or position. The JAVELIN Project Office identified monitors by position and the individuals appointed to the AFEB are identified by position. One of the Board members is the Contracting Officer's Representative (COR). The COR attends all the Board meetings and can identify the members of the Board, who are the only personnel with evaluation authority. The 32 personnel referred to in the audit report are personnel in the JAVELIN Project Office who have some knowledge (whether detailed or very minor) of the contractor sub-ESM activity. All of these people do not attend Board meetings; at times they may have an input to the evaluation reports, but they are not evaluators. There is no reason for the Contracting Officer to be able to identify all 32 people.

2. On page 25, AAA states that personnel who monitored contractor performance for contract 0126 (JAVELIN) hadn't received guidance on how to perform evaluations or document

results. The Evaluation Board consists of senior personnel who have years of experience evaluating contractor performance under award fee contracts. All personnel in the JAVELIN Project Office have on-the-job training. The Award Fee Evaluation Plan is provided to all evaluators (including the JAVELIN Division Chiefs) and all personnel who write the evaluation reports. This Plan includes award fee policy and procedures, responsibilities of all personnel involved in the award fee evaluation, and the evaluation report format with instructions for completing the report. Each evaluation report is reviewed and approved by the Division Chiefs and the AMCOM Legal Office prior to the time the Board meets.

3. In the last paragraph on page 26, AAA discusses ratings that personnel in the JAVELIN Project Office assigned during a rating period. When the Board (Deputy Project Manager, Legal Representative, COR, and Division Chiefs) meets, each evaluation report is reviewed page by page, paragraph by paragraph. The people who make up the Board are highly competent experts in their functional area, and are able to make determinations that what is written supports the rating assigned. Therefore, we feel that adequate justification of ratings was provided.

4. On page 29 AAA states that evaluation boards and determining officials didn't prepare detailed documents explaining their recommendations and decisions. The evaluation reports are thoroughly discussed at each Board meeting and are changed as necessary to reflect the Board's evaluation. Thus, we believe these evaluations provide adequate justification for the ratings assigned.

5. During the audit the auditor stated that the JAVELIN Office should have used the format in DFARS 216 in developing our evaluation criteria. We had been advised by the AMCOM Legal Office that DFARS 216, Table 16-1 contains sample performance evaluation criteria, not required criteria, and we considered the sample criteria in developing the evaluation criteria for this contract. The AMCOM Legal Office representative for JAVELIN has stated that JAVELIN is meeting all regulatory requirements for award fee contracts.



REPLY TO
ATTENTION OF

SFAE-AMD-BD (36-2c)

DEPARTMENT OF THE ARMY
PROGRAM EXECUTIVE OFFICE, AIR AND MISSILE DEFENSE
POST OFFICE BOX 1500
HUNTSVILLE, ALABAMA 35807-3801

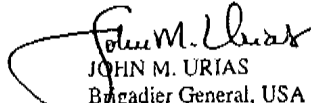
28 SEP 2000

MEMORANDUM FOR U.S. Army Audit Agency, Office of the Deputy Auditor General,
Acquisition and Materiel Management Audits, 3101 Park Center
Drive, Alexandria, VA 22302-1596

SUBJECT: U.S. Army Audit Agency (USAAA) Draft Report, Best Practices for Using Award
Fees (AMC No. A0002) (AMCOM Project No. 02-0999-053)

1. Reference memorandum, SAAG-AMA, 14 Jun 00, subject: Audit of Best Practices for Using Award Fees (Assignment Code A0-101S).
2. Program Executive Office, Air and Missile Defense revised comments to the subject report are enclosed.
3. It should be noted that in August 2000, the PATRIOT Project Office merged with the MEADS Product Office to become the Lower Tier Project Office.
4. The point of contact is Ms. Beth L. Reichert, 256-313-3432, E-mail: Reichert@md.redstone.army.mil.

Encl


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Program Executive Officer,
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COMMAND COMMENTS
USAAA Draft Report
Best Practices for Using Award Fees
(AMCOM Project 02-0999-053)

A – USE OF AWARD FEES

Additional Facts:

Comment on Documentation, Page 29: The PATRIOT Project Office prepares between 30-40 pages of documentation for each award fee evaluation period. This documentation includes the preliminary and final evaluation packages, a memorandum for record detailing board findings, comments, and recommendations, concurrence signatures of each board member, contractor comments and concurrence, and Award Fee Determining Official (AFDO) determination and findings. Internal coordination is not made a matter of record in the final documentation package to the AFDO, but is filed as back-up material in files maintained by the award fee coordinator. We have, however, added a statement to the signature page that all board members sign stating that the evaluation report was fully staffed and all board members are in agreement with the rating assigned to the contractor.

Recommendation A-9:

Implement effective award fee evaluation criteria for the contracts included in this audit. Develop criteria or revise existing criteria to make sure they:

- . Focus on the most important aspects of the program or function.
- . Address program risks.
- . Are as specific as possible.

Review criteria with the Award Fee Evaluation Board before each award fee period to make sure the criteria are appropriate for the designated award fee period, considering critical tasks, program risks, and desired emphasis. Revise the criteria, if necessary.

Action Taken:

Concur with the intent of that portion of the recommendation to develop criteria or revise existing criteria to make sure they: (i) focus on the most important aspects of the program or function, (ii) address program risks, and (iii) are as specific as possible. The award fee criteria for the Program Executive Office Air and Missile Defense (PEO AMD) contract (DAAH01-99-C-0028) covered in this audit, although considered broad by AAA, are appropriate for this services contract and do not require revision. The three criteria, Technical Performance (which includes Evaluation, Analysis, Testing, and Solution of Problems), Reporting, and Resource Management, are self-explanatory, very clear, and require no further sub-division into additional categories. Technical Performance

encompasses areas that are identified within the criteria. The Reporting criteria covers reports deliverable as data items under the contract and reporting by the contractor in Program and Management reviews. The Resource Management award fee criteria encompass how the contractor manages his resources (personnel and budget). The PATRIOT Engineering Services contract has continued for many years with the prime contractor (Raytheon) for the PATRIOT Missile System. The effort required under this engineering services contract is identified in the contract through Engineering Services Memorandums (ESMs). Each ESM manager interacts with the contractor on a daily basis and is well aware of the actions taken by the contractor to accomplish the effort required for his particular ESM. The ESM managers are the evaluators under the contract and, as the recognized experts for their respective ESM areas, are extremely knowledgeable and more than capable of providing meaningful, fully justifiable evaluation reports. The evaluators and the contractor fully understand the award fee criteria, the importance and weight of each criterion, and how the criteria will be evaluated. The Award Fee Evaluation Board (AFEB) has closely monitored the sufficiency of the evaluations and the manner in which they are documented, questioning any discrepancies or shortcomings and requesting revisions in the evaluation report. We do agree, however, to further define what areas each of the three criteria encompass. Implementation of the fully defined award fee criteria into the contract will be accomplished (with contractor approval) prior to the 1 Feb 01 – 31 Jul 01 award fee evaluation period. We also agree to take an additional step in the award fee process to poll the evaluators prior to each evaluation period to ensure that the criteria are still sufficient to provide the level of performance evaluation desired by the project office. If the tasks required under the contract have changed significantly, then award fee criteria would be reviewed for possible revision. We will continue to monitor our contract for possible revision of award fee criteria when necessary.

Concur with that portion of the recommendation to review criteria with the AFEB before each award fee period to make sure the criteria are appropriate for the designated award fee period, considering critical tasks, program risks, and desired emphasis. The AFEB members will be given the opportunity to comment on the appropriateness of the award fee criteria as written for the upcoming evaluation period prior to the next designated award fee evaluation period. Award fee evaluation periods for the contract included in this audit are 1 Feb – 31 Jul and 1 Aug – 31 Jan.

Recommendation A-10:

Revise award fee payment structures to encourage excellent contractor performance for award fee contracts. Implement forthcoming guidance on award fee payment structures from the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) and Aviation and Missile Command, as we discussed in Recommendations A-1 and A-4.

Action Taken:

Concur. The PATRIOT Project Office will implement forthcoming guidance on award fee payment structures when received from AMCOM and the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology).

OTHERS RECEIVING COPIES OF THIS REPORT

Assistant Secretary of the Army (Financial Management and
Comptroller)

The Inspector General

Chief of Public Affairs

Deputy Chief of Staff for Logistics

Deputy Chief of Staff for Personnel

Deputy Chief of Staff for Programs

Assistant Chief of Staff for Installation Management

Deputy Assistant Secretary of the Army (Procurement)

Director, Program Analysis and Evaluation

Commanders

U.S. Army Forces Command

U.S. Army Training and Doctrine Command

U.S. Army Materiel Command

U.S. Army Criminal Investigation Command

3d Military Police Group, U.S. Army Criminal

Investigation Command

Commandant, U.S. Army Logistics Management College

Director, Center for Army Lessons Learned

Under Secretary of Defense (Acquisition, Technology and Logistics)

Under Secretary of Defense (Comptroller)

Director, Defense Intelligence Agency

Auditor General, Air Force Audit Agency

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(Assignment Code A0-101S)

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